MISSOURI DEPARTMENT OF TRANSPORTATION

ANNUAL FINANCIAL REPORT

For the Year Ended
June 30, 2006

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Independent Accountants' Report on Financial Statements and Supplementary Information

Missouri Highway and Transportation Commission
Missouri Department of Transportation
Jefferson City, Missouri

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Missouri Department of Transportation (Department) as of and for the year ended June 30, 2006, which collectively comprise the Department's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in *Note 1*, the financial statements of the Missouri Department of Transportation are intended to present the financial position, the changes in financial position and cash flows, where applicable, of only that portion of the governmental activities, each major fund and the aggregate remaining fund information of the State of Missouri that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of Missouri as of June 30, 2006, and the changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Missouri Department of Transportation as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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The accompanying management's discussion and analysis and budgetary comparison information as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Missouri Department of Transportation's basic financial statements. The accompanying combining statements supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

BKD, LLP

September 15, 2006

Management's Discussion and Analysis

The following Management's Discussion and Analysis is a required supplement to the Missouri Department of Transportation's (MoDOT or the Department) financial statements. It describes and analyzes the financial position of the Department, providing an overview of the Department's activities for the year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with the information presented in the Department's financial statements and notes, which follow this section.

FINANCIAL HIGHLIGHTS – PRIMARY GOVERNMENT

Government-wide Highlights

For the fiscal year, the Department's program expenses exceeded its program revenues; however, general revenues, generated primarily from various taxes, exceeded the net expenses of the program. As a result, net assets increased during the 2006 fiscal year. Total program revenues increased from fiscal year 2005, mainly from licenses, fees and permits, with an increase of $17.8 million. Investment earnings also increased $19.1 million in fiscal year 2006 as the market environment provided increased yields.

Net Assets – The net assets of the Department at June 30, 2006, were $24.7 billion. After reducing the total amount by $24.4 billion for net investment in capital assets and certain restricted net assets, the resulting restricted net assets available for highways and transportation uses totaled $341.1 million. Restricted net assets are dedicated for specific uses, including fund requirements, equipment purchase commitments and debt service, and are not available for current activities. The restricted highways and transportation net assets are available for spending at the Department's discretion for highway and transportation purposes.

Changes in Net Assets – The Department's total net assets, all originating from governmental activities, increased by $122.1 million during the year ended June 30, 2006.

Noncurrent Assets – As of June 30, 2006, the Department's noncurrent assets totaled $25.7 billion, of which 99.0 percent was related to capital assets. The Department's highway infrastructure and infrastructure in progress, including roads, bridges, interchanges, and related land, comprises $25.0 billion (97.8 percent) of the capital assets.

Noncurrent Liabilities – The Department's noncurrent liabilities totaled $1.2 billion, which consisted of $1.0 billion of revenue bonds, and $0.2 billion in other noncurrent liabilities.

Fund Highlights

Governmental Funds – As of June 30, 2006, the Department's governmental funds reported a combined ending fund balance of $424.9 million, a decrease of $25.6 million from the previous fiscal year. The total reserved fund balance at June 30, 2006 is $116.7 million, as compared to $139.4 million at June 30, 2005. The $22.7 million decrease is primarily due to a $24.7 million decrease in the reserve for equipment purchase commitments and a $2.6 million increase in the reserve for inventories. Approximately $308.2 million (72.5 percent) is available unreserved fund balance for spending at the Department's discretion in accordance with the purpose of the funds compared to $311.1 million (69.0 percent) in 2005.

Proprietary Funds – As of June 30, 2006, the Department's proprietary funds reported combined net assets of $11.6 million, an increase of $0.9 million from the previous fiscal year. After the total net assets are reduced by $0.3 million for restricted investments, the unrestricted net assets totaled $11.3 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is an introduction to the section presenting the Department's basic financial statements, which includes three components: (1) ***government-wide financial statements,*** (2) ***fund financial statements***, and (3) ***notes to the financial statements***. This report also contains required supplementary information and combining financial statements.

Government-wide Financial Statements

Government-wide financial statements are designed to provide readers with a broad overview of the Department's finances. The statements provide both current and noncurrent information about the Department's financial status, which assists the reader in assessing the Department's economic condition at the end of the fiscal year. These statements are prepared using the economic resources measurement focus and the accrual basis of accounting, which is similar to methods followed by most businesses. These statements take into account all revenues and expenses connected with the fiscal year, even if the cash involved has not been received or paid. The government-wide financial statements include two statements: the Statement of Net Assets and the Statement of Activities.

- The *Statement of Net Assets* presents all of the Department's assets and liabilities, except fiduciary funds, with the difference between the two reported as "net assets". Over time, increases or decreases in the net assets indicate whether the financial health is improving or deteriorating, respectively. Fiduciary resources are not reported as they are not available to support Department programs.

- The *Statement of Activities* presents information showing how the Department's net assets changed during the most recent fiscal year. The Department reports changes in net assets as soon as the event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused compensated absences).

The Department's basic services are reported as governmental activities, including administration, fleet, facilities, and information systems, maintenance, construction, other modal systems, and other activities. Taxes, fees, and federal grants finance most of these activities.

Fund Financial Statements

Fund financial statements focus on individual parts of the Department, reporting the Department's major individual fund operations in more detail than the government-wide statements. Each fund is a grouping of related accounts that is used to maintain control over specific resources and segregated for a particular purpose. The Department uses fund accounting to ensure and demonstrate compliance with finance-related legal and contractual requirements. Following are general descriptions of the three types of funds. It is important to note these fund categories use different accounting approaches and should be interpreted differently.

- *Governmental Funds* – Most of the basic services provided by the Department are financed through governmental funds. Reporting of these funds focuses on how financial resources flow in and out of the funds, and amounts remaining at year-end for future spending. Governmental funds are accounted for using the modified accrual basis of accounting, which measures cash and other assets that can be readily converted to cash. These statements provide a detailed short-term view of the Department's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the Department.

- Because the focus of governmental fund financial statements is narrower than that of government-wide financial statements, it is useful to compare these statements with the governmental activities information presented in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financing decisions. Both the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate a comparison between governmental funds and governmental activities in the government-wide statements. These reconciliations are presented on the page immediately following the governmental fund financial statements. Primary differences between the government-wide and fund statements relate to noncurrent assets, such as land, buildings, and infrastructure, and noncurrent liabilities, such as bonded debt and amounts owed for compensated absences and capital lease obligations, which are reported in the government-wide statements but not in the fund-based statements.

  The Department reports three major governmental funds – the State Highways and Transportation Department Fund (Highway Fund), the State Road Fund (Road Fund), and the State Road Bond Fund. The Highway and Road funds are special revenue funds, used to account for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes. The State Road Bond Fund is a debt service fund, which was constitutionally established to receive monies from the state's motor vehicle sales tax used to fund the repayment of bonds. Data from other funds are combined into a single, aggregated presentation as nonmajor governmental funds. Examples of the nonmajor funds include statutorily established funds for multimodal activities. Individual fund data for each of these nonmajor governmental funds is provided within combining financial statements following the Notes to the Financial Statements.

- *Proprietary Funds* – These funds are used to show activities that operate more like those found in the private sector. The Department charges customers for the services it provides – whether to outside customers, other agencies or to units within the Department. These funds, like the government-wide statements, use the accrual basis of accounting. The Department has two internal service funds to report activities for the Missouri Highways and Transportation Commission's (MHTC or Commission) Self-Insurance Plan and the Missouri Department of Transportation and Missouri State Highway Patrol (MSHP) Medical and Life Insurance Plan. Internal service fund activities are reported as governmental activities on the government-wide statements with eliminations made to remove the effect of the interfund activity.

- *Fiduciary Funds* – Fiduciary funds are used to account for resources held for the benefit of parties outside the Department. These funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the Department's activities. These agency funds account for monies held on behalf of various political subdivisions and other interested parties.

Notes to the Financial Statements

The *Notes to the Financial Statements* provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements, which discuss particular accounts in more detail, can be found immediately following the fiduciary funds Statement of Net Assets.

Required Supplementary Information

A section of *Required Supplementary Information* follows the Notes to the Financial Statements. This section includes budgetary comparisons and a separate reconciliation between the fund balances for budgetary purposes and the fund balances for the major special revenue funds presented in the governmental fund financial statements. The Budgetary Comparison has been provided for the Department's two major special revenue funds to demonstrate compliance with this budget.

The legal authority for approval of the Department's budget and amendments for all funds, except the Road Fund, rests with the State Legislature. The authority for the Road Fund rests with the Commission.

Combining Statements

The *Combining Statements* section presents combining statements for nonmajor governmental funds, proprietary (internal service) funds, and fiduciary (agency) funds. Information for the nonmajor and internal service funds combinations is presented only in summary form in the basic financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a governmental entity's financial position. As presented in Table 1, total assets of the Department on June 30, 2006 were $26.3 billion, while total liabilities were $1.6 billion, resulting in net assets of $24.7 billion. The largest component of the Department's total net assets, $24.3 billion, or approximately 98.4 percent, reflects its investment in capital assets (i.e., land, buildings, equipment, infrastructure, and other), less any related debt outstanding that was needed to acquire or construct the assets. The Department uses capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Department's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, because the capital assets themselves cannot be used to liquidate the liabilities.

Another $60.2 million of the Department's net assets represent resources that are subject to restrictions, such as resources pledged to debt service. The balance of the restricted net assets, $341.1 million, may be used to meet the Department's ongoing obligations to citizens and creditors.

Table 1 presents condensed financial information derived from the Statement of Net Assets for the Department.

Table 1

Net Assets
June 30, 2006
(amounts in millions)

	2006	2005
Assets		
Current and other assets	$ 703	$ 693
Capital assets, net	25,609	25,191
Total assets	**26,312**	**25,884**
Liabilities		
Current liabilities	342	277
Noncurrent liabilities	1,227	986
Total liabilities	**1,569**	**1,263**
Net Assets		
Investment in capital assets net of related debt	24,342	24,234
Restricted (internal service fund requirements, equipment purchase commitments, debt service)	60	60
Restricted (highways and transportation uses)	341	327
Total net assets	**$ 24,743**	**$ 24,621**

Changes in Net Assets

The expenses of the Department totaled $1.8 billion for the year ended June 30, 2006. Of the total expenses, $1.2 billion (65.9 percent) was funded with program revenues (charges for services or program-specific grants and contributions), leaving $0.6 billion to be funded with general revenues (mainly taxes). General revenues totaled $0.7 billion, resulting in a total net assets increase of $0.1 billion during the year.

Table 2 presents condensed financial information derived from the Statement of Activities.

Table 2

Changes in Net Assets
Year ended June 30, 2006
(amounts in millions)

	2006	2005
Revenues		
Program revenues		
Charges for services	$ 372	$ 350
Operating grants and contributions – federal government	62	57
Capital grants and contributions – federal government	768	771
General revenues		
Taxes	705	700
Investment earnings	24	5
Miscellaneous	13	14
Total revenues	**1,944**	**1,897**
Expenses		
Program expenses		
Administration	31	30
Fleet, facilities and information systems	53	56
Maintenance	362	375
Construction	165	210
Multimodal operations	61	53
Other state agencies	147	179
Self-insurance (workers' compensation and liability)	27	22
Medical and life insurance	93	82
Interest on debt	53	43
Depreciation on assets	830	690
Total expenses	**1,822**	**1,740**
Change in net assets	**122**	**157**
Net assets, beginning of year	24,621	24,464
Net assets, end of year	**$ 24,743**	**$ 24,621**

Governmental Activities

For the year ended June 30, 2006, the largest change in revenues was from charges for services, $372.3 million in fiscal year 2006 compared to $349.9 million in fiscal year 2005. The increase was due to an increase in intergovernmental and cost reimbursements and licenses, fees, and permits. Although Amendment 3 provided an additional $30.2 million to the newly established State Road Bond Fund, the overall Department increase in sales and use taxes was only $1.0 million. The economic impact of increased fuel costs resulted in reduced sales and use taxes as the purchase price of new and used vehicles decreased. A $19.1 million increase in investment earnings was recognized in fiscal year 2006 as the financial markets improved.

Minor increases for governmental activities expenses were recognized. The total increase was $82.2 million (4.7 percent). The increase in depreciation of $139.9 million is partially offset by a $57.6 million decrease in governmental program expenses. The $44.8 million decrease in construction expenditures was related to the Department's Smoother, Safer, Sooner construction initiative, which resulted in increased capitalized construction projects. In November 2004, constitutional Amendment 3 was approved by 79 percent of voters. The Department began a program in January 2005 to improve the condition of 2,200 miles of the State's most heavily traveled roads by December 2007. These roads carry 60 percent of all traffic on the state highway system. Eighty-six percent of Missouri's population lives within a ten-mile radius of these roads.

The decrease in other state agencies' expenses of $31.5 million (17.7 percent) is the result of Amendment 3 spending limitations. There were increases in self-insurance liability and medical benefits of $15.9 million (15.2 percent), interest on debt of $10.1 million (23.2 percent), and increased multimodal programs of $7.6 million (14.3 percent).

The percentage of total expenses for governmental activities and the percentage of total revenues by source are presented in Charts 1 and 2.

Chart 1

Expenses – Governmental Activities
Year ended June 30, 2006
(as a percent)

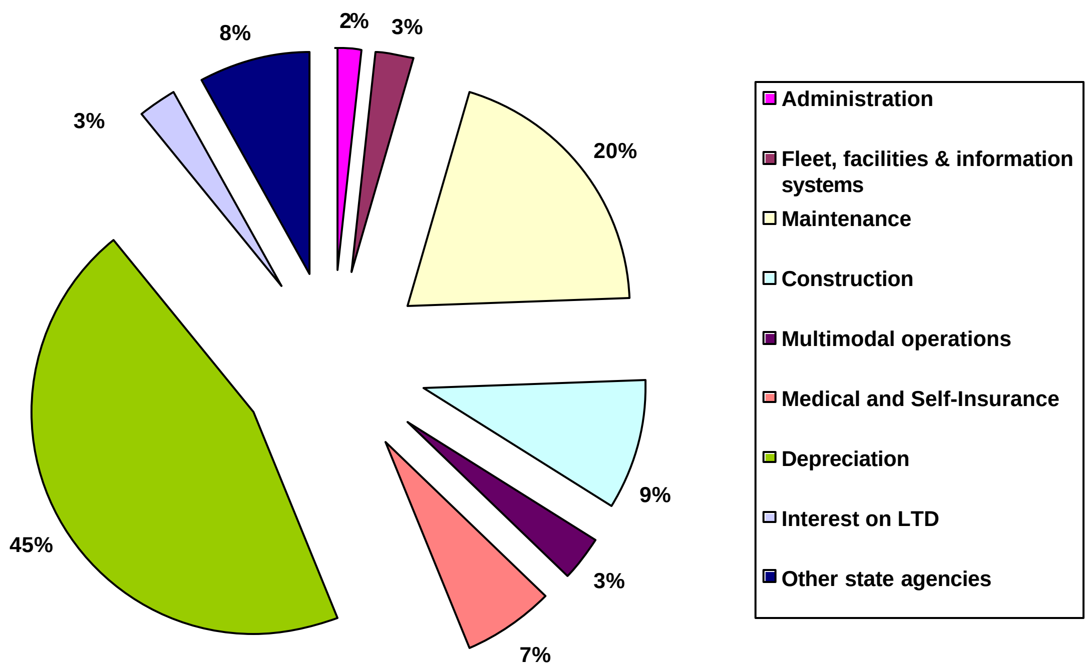
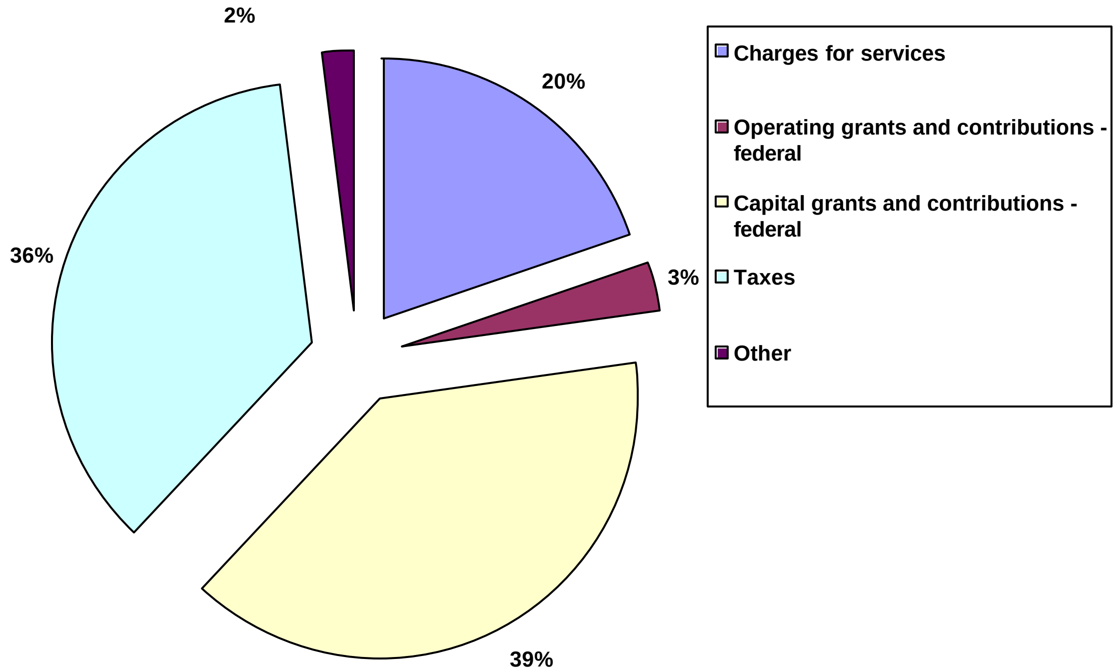


Chart 2

Revenues by Source – Governmental Activities
Year ended June 30, 2006
(as a percent)



FUND FINANCIAL ANALYSIS

The financial position of the Department's governmental funds declined during the year. The Department's spending related to maintenance and construction, including capital outlay expenditures, was approximately $301.5 million more than fiscal year 2005 and debt service expenditures increased $30.5 million, while the Department received proceeds from long-term bond debt of $350.7 million in fiscal year 2006.

Governmental Funds

The Balance Sheet of the governmental funds reported $613.7 million in assets, $188.8 million in liabilities, and $424.9 million in fund balances as of June 30, 2006. The largest changes were a decrease of $22.3 million in cash and cash equivalents and an increase of $16.8 million in payables. Within the total fund balances, $116.7 million has been set aside in reserve. The reserved amounts are not available for new spending, because they have been committed for equipment purchase commitment ($1.0 million), debt service ($75.8 million), noncurrent loans receivable ($2.1 million), and inventory ($37.7 million). The balance of unreserved governmental funds is $308.2 million, which was available for the general spending of the Department and debt service.

The Statement of Revenues, Expenditures, and Changes in Fund Balances of the governmental funds shows $1.9 billion in revenues, $2.3 billion in expenditures, and a net $394.5 million in receipts from other financing sources. The ending fund balances of the governmental funds for the year ended June 30, 2006, were a total of $424.9 million, which was a $25.6 million decrease from the previous year's fund balance of $450.5 million. Spending from existing fund balances was the result of increased construction projects utilizing new bond proceeds. The Department's major governmental funds, the Highway Fund, Road Fund, and State Road Bond Fund, ended the fiscal year with fund balances of $113.1, $279.4, and $8.6 million, respectively. The nonmajor governmental funds ended the year with a total fund balance of $23.8 million.

State Highways and Transportation Department Fund (Highway Fund): This fund is established by statute to receive revenues derived from the use of state highways. The fund pays the costs incurred to collect revenue received. As shown on the Balance Sheet, the fund ended the fiscal year with assets of $121.0 million, liabilities of $7.8 million, and an unreserved fund balance of $113.1 million. The decrease in total liabilities, $1.3 million, is the result of a change in funding legislative appropriations in fiscal year 2006. Amendment 3 included not only a change in revenue allocation, but also changed the Department's expenditure funding. Previously, certain expenditures related to the administration of the Department were paid from the Highway Fund. As a result of Amendment 3, the Department's expenditures, with the exception of limited items including Motor Carrier Services refunds, are paid from the Road Fund.

As shown on the Statement of Revenues, Expenditures, and Changes in Fund Balances of the governmental funds, the Highway Fund had $727.0 million in revenues, $169.6 million in expenditures, and a net decrease of $570.5 million for other financing uses, including transfers to the Road Fund, for the year ended June 30, 2006. The largest sources of Highway Fund revenue were fuel taxes ($522.5 million) and licenses, fees, and permits ($167.9 million). Fuel taxes increased $3.9 million and licenses, fees, and permits decreased $2.0 million. The increase in fuel taxes can be attributed to general growth in fuel usage.

Highway Fund expenditures decreased by $413.3 million, to $169.6 million. The change in expenditures is the result of Amendment 3, which changed funding for the administration of the Highways and Transportation Commission (Commission and Department of Transportation) from the Highway to the Road Fund. Distributions to other state agencies also decreased $24.9 million as a result of Amendment 3.

Other financing uses increased $434.0 million to $570.5 million in 2006. State statute provides for fund transfers from the Highway Fund to the Road Fund for maintenance and construction purposes. Transfers increased as a result of reduced Highway Fund expenditures.

State Road Fund (Road Fund): The Road Fund was constitutionally established to receive monies from the motor vehicle sales tax, the federal government, and other revenues not required to be in another fund. The fund pays to construct, improve and maintain the state highway system and to administer the Commission and the Department. The fund ended the fiscal year with assets of $447.3 million, liabilities of $168.0 million and fund balances of $279.3 million. Of the fund balance, $1.0 million was reserved for equipment purchase commitments, $75.8 million for debt service, and $37.7 million for inventories, with the remaining $164.8 million available for spending for the general purposes of the fund. As a measure of the Road Fund's liquidity, it may be useful to compare both the unreserved fund balance and the total fund balance to the total fund expenditures. Unreserved fund balance represents 8.0 percent of total Road Fund expenditures, while total fund balance represents 13.6 percent of the same amount.

As previously noted, Amendment 3 changed funding for Department expenditures from the Highway to the Road Fund. As a result, expenditures increased by $699.4 million, to $2.1 billion. Capital outlay expenditures increased by $376.3 million as a result of spending proceeds from bonds issued.

State Road Bond Fund: The State Road Bond Fund was constitutionally established to receive monies from the state's motor vehicle sales tax. Monies are used to fund the repayment of bonds issued by the Commission. The fund was established in fiscal year 2006 as a debt service fund. Total assets at June 30, 2006, were $8.6 million. The fund balance of $8.6 million (100 percent) was unreserved. Expenditures of the State Road Bond Fund were $22.0 million.

Proprietary Funds

Internal Service Funds: The Department's internal service funds consist of the MHTC Self-Insurance Fund (workers' compensation, fleet liability, and general liability) and the MoDOT and Missouri State Highway Patrol (MSHP) Medical and Life Insurance Plan (medical and life insurance fund). The Self-Insurance Fund receives premiums from the Department for fleet and general liability claims and from the Department, MSHP, and MoDOT and Patrol Employees' Retirement System (MPERS) for workers' compensation claims. The Department, MSHP, MPERS, and employees of those agencies pay premiums to the medical and life insurance fund.

As shown on the Statement of Net Assets – Proprietary Funds, the total assets were $84.7 million. Of this, current assets totaled $46.7 million, an increase of $10.3 million, and noncurrent assets totaled $37.9 million. The total liabilities of the proprietary funds were $73.1 million, an increase of $10.1 million. Pending self-insurance claims increased $9.6 million, to $39.6 million, while incurred but not reported claims increased $0.7 million, to $25.8 million.

Total net assets of the internal service funds were $11.6 million as of June 30, 2006. Total net assets consisted of $11.3 million unrestricted and $0.3 million restricted.

As shown on the Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds, the internal service funds ended the year with operating revenues of $119.0 million, operating expenses of $120.3 million, and revenues from investments of $2.3 million. The largest source of operating revenues is from premiums assessed to the Department and MSHP. Revenues derived from the State totaled $90.2 million (75.9 percent).

The largest operating expenses, medical and prescription drug benefits, totaled $83.8 million (69.7 percent). The largest fluctuations from fiscal year 2005 were in self-insurance fund expenditures. General liability expenditures increased $8.4 million to $16.0 million (111.3 percent). House Bill 393, Tort Reform, reallocated the doctrine of joint and several liability. The new law became effective August 28, 2005, and may limit a defendant's liability. Prior to the August 28, 2005 effective date, an increased number of claims were filed against the Department. Medical plan professional fees also increased in excess of 100 percent. Fees increased $0.6 million (118.5 percent) as a result of implementing a new program designed to manage chronic illnesses and professional fees related to the implementation and administration of Medicare Part D.

Fiduciary Funds

The Department has one type of fiduciary fund – agency funds. The agency funds are used to account for monies held on behalf of various political subdivisions and other interested parties. These funds act as clearing accounts and thus do not have net assets.

SIGNIFICANT EVENTS FOR THE YEAR ENDED JUNE 30, 2006

On June 10, 2005, the Commission authorized the issuance of up to $300.0 million in fixed-rate bonds and $100.0 million of variable-rate bonds, with proceeds from the issuance of the bonds used to finance construction and reconstruction costs of the state highway system. In July 2005, the Department issued $278.6 million and $72.0 million, respectively, of the authorized bonds. The variable-rate bonds are secured by a seven-year stand-by irrevocable direct-pay Letter of Credit.

The Department's fixed-rate bonds, referred to as the First Lien, were issued with ratings of Aa1 from Moody's Investors Services, AA+ from Standard and Poor's Rating Services, and AA from Fitch Ratings. The senior lien bonds issued between 2000 and 2003 had ratings of Aa2 from Moody's, AA from Standard and Poor's Rating Services, and AA from Fitch Ratings. This series of bonds has been closed and additional bonds will not be issued in this series, accordingly, the original ratings have been upgraded to Aaa, AAA, and AA+ by Moody's, Standard and Poor's, and Fitch respectively.

The Department's Smoother, Safer, Sooner construction initiative encompasses three steps. The steps include improvements to the state system, accelerating existing projects in the five-year State Transportation Improvement Plan (STIP), and, with stakeholders, identifying new high priority projects totaling $1.3 to $1.5 billion.

In August 2005, the Federal Highway Act entitled Safe Accountable Flexible Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) was passed and signed into law by the President. This act provides federal funding through September 30, 2009.

The Department, like other entities, has been impacted by increased costs of petroleum products, cement and steel. The negative impact has affected daily operations, as well as costs of construction. In November 2004, the Department began utilizing practical design concepts as a tool to reduce construction project costs. This concept maximizes the value of a project through innovative design and right-sizing. As a result of Practical Design, 2006 awarded right of way and construction projects were only 6.8 percent over the STIP programmed amounts, while some other states experienced 20+ percent variances.

BUDGET HIGHLIGHTS

The Department's final Road Fund budget was $16.6 million more than the original budget. The largest increase was $13.6 million for additional construction contracts as a result of projects identified in the Smoother, Safer, Sooner Program. Budgeted bond principal and interest payments also increased $4.7 million as a result of the 2005 bond issue. The Maintenance budget decreased by approximately $3.4 million as the Smoother, Safer, Sooner maintenance phases were accelerated in fiscal year 2005.

Cash receipts exceeded the final budget by approximately $82.0 million. Federal receipts and bond proceeds exceeded the budget by $65.0 and $10.2 million, respectively. In 2005, the reauthorization of the Federal Transportation Appropriations was delayed, causing erratic receipts of Federal reimbursements. The remaining 2005 federal receipts were received in state fiscal year 2006. Actual interest receipts exceed the budget by $12.1 million as the market improved.

Total actual expenditures were $86.2 million less than the final budget. Contract expenditures account for $43.4 million of the variance, as a result of moving job completion dates to fiscal year 2007. Right of Way payments are $9.3 million less than final budget due to the timing of acquisitions. Fleet, facilities, and information systems expenditures are $11.1 million less than final budget. Information Systems implemented cost savings programs in some areas. In addition, some information systems and facilities services projects scheduled for fiscal year 2006 will be completed in fiscal year 2007.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Department's investment in capital assets for its governmental activities as of June 30, 2006, amount to $44.9 billion invested in capital assets, with accumulated depreciation of $19.3 billion and a net value of $25.6 billion. This represents an increase of $0.4 billion from fiscal year 2005. Depreciation charges totaled $0.8 billion in fiscal year 2006. These assets are summarized in Table 3 below. Additional information about the Department's capital assets is presented in the Notes to the Financial Statements.

Table 3

Capital Assets, Net of Depreciation
June 30, 2006
(amounts in millions)

Land	$ 2,151
Land improvements	7
Buildings	148
Equipment	114
Vehicles	78
Infrastructure	20,098
Construction in progress	3,012
Total	**$ 25,608**

As provided by generally accepted accounting principles, the Department records its infrastructure assets at actual or estimated historical cost. Included in infrastructure are approximately 72,000 lane miles and 76.9 million square feet of bridge deck area that the Department is responsible for maintaining.

The Statewide Transportation Improvement Program (STIP), updated annually, sets the specific construction projects the Department will undertake in the next five years. It covers highways and bridges, transit, aviation, rail, waterways, enhancements and other projects. Adjustments are made during the life of the STIP based on needs.

Debt Administration

At June 30, 2006, the Department's total long-term obligations, excluding pending self-insurance claims and incurred but unreported claims, totaled $1.3 billion. Of this amount, $1.1 billion (84.6 percent) represents transportation revenue bonds. Revenues collected under Article IV, Section 30(a) & (b) of the Missouri Constitution secure the bonds. These revenues are state highway users fees, including fuel taxes, sales and use taxes, and licenses and fees.

Table 4 presents a summary of the Department's long-term obligations for governmental activities. Additional information about the Department's long-term obligations is presented in the Notes to the Financial Statements.

Table 4

Long-term Obligations
June 30, 2006
(amounts in millions)

Transportation revenue bonds	$	1,120
Premium on bonds		37
Advances from other governments and State of Missouri component units		68
Capital leases obligations		43
Compensated absences		32
Other noncurrent liabilities		12
Total long-term obligations		**1,312**
Current portion of long-term obligations		125
Total noncurrent liabilities	**$**	**1,187**

Between 2000 and 2003, the Department issued revenue bonds referred to as the Senior Bonds. Additional bonds were sold during fiscal year 2006. Bonds outstanding as of June 30, 2006, are scheduled to mature on various dates, but not later than fiscal year 2023. The bonds are obligations of the Road Fund and are not obligations of the State of Missouri. The bonds were issued to finance projects in conformity with priorities established in the 1992 plan developed by the Department, to accelerate projects in the STIP, and to finance projects in the Department's Smoother, Safer, Sooner road and bridge program.

House Bill 1742, passed May 2000, authorized the Department to issue bonds of $2.25 billion, with no more than $500 million issued in any one year. Amendment 3, approved by Missouri voters on November 2, 2004, overrides the statutory limitations on the amount of state road bonds the Commission can issue.

The advances from other government agencies and State of Missouri component units are related to construction projects accelerated to meet the needs of the users. With the exception of an advance from the Missouri Transportation Finance Corporation, all advances are interest free. Principal payments are due on various dates through fiscal year 2021.

The Department has entered into various capital lease obligations. The lease-purchase agreements provide a means of financing office and heavy equipment. In addition to equipment lease-purchase agreements, the Department entered into an agreement for an office facility to accommodate the consolidation of motor carrier services in fiscal year 2005. Capital lease payments mature on various dates through fiscal year 2016.

RECENT EVENTS AND FUTURE BUDGETS

Recent Events

On July 1, 2006, Department employees received a 4 percent, across-the-board, cost of living adjustment (COLA) to wages. The cost of salary increases is $8.3 million.

On July 11, 2006, the Commission authorized the issuance of up to $800.0 million in first lien state road bonds, consisting of $296.7 million Series A and $503.3 million Series B, with proceeds from the issuance of the bonds used to finance construction and reconstruction costs of the state highway system, pursuant to the Smoother, Safer, Sooner road and bridge program.

In July 2006, the Department sold $296.7 million and $503.3 million, respectively, of the authorized bonds. The bonds bear interest payable semiannually, from 3.75 to 5.0 percent and are due in semiannual installments beginning November 1, 2006. The bonds are callable by the Department, subject to certain provisions. The bonds were issued with ratings of Aa1, AA+, and AA+ from Moody's Investors Services, Standard and Poor's Ratings Services and from Fitch Ratings, respectively.

Future Budgets

The Department's fiscal year 2007 budget for all funds was approved by the Legislature in May 2006 and signed into law by the Governor in June 2006. The fund level is the legal level of control for the Road Fund, with approval of the Road Fund budget by the Commission. The Commission approved the budget for all funds in June 2006.

The total spending plan adopted for the Department was $2.3 billion. As previously disclosed, beginning in fiscal year 2006, the Department's primary funding stream changed to the Road Fund as a result of Amendment 3. Budgets for fiscal year 2007 include $422.9 million maintenance and $1.6 billion construction expenditures, including expenditures of a capital outlay nature, compared to actual spending of $397.5 million and $1.4 billion, respectively, in fiscal year 2006, as reflected in the Budgetary Comparison of the Road Fund. Additionally, budgeted fiscal year 2007 debt service expenditures for bond indebtedness for the Road and Road Bond Funds total $171.6 million, an increase of $59.2 million from fiscal year 2006 total bond indebtedness expenditures of $112.4 million.

The Department has also approved three design-build projects. Design-build projects are another innovative concept utilizing the contractor for the design and construction of a project. All three projects: the New I-64, the kcICON, and the Safe and Sound Bridge Improvement Program are in various stages of planning and design. The I-64 project will be awarded in calendar year 2006.

In July 2006, the Governor signed a new eminent domain law. The law will significantly impact the cost of future right of way acquisitions by the Department. In some cases, the law requires payment of 125 percent to 150 percent of fair market value. Even though the law only requires the parcels condemned to receive the additional money, the Department elected to administratively settle parcels acquired through negotiations to avoid an increase in condemnation and to avoid delaying projects. The Department elected to implement this practice immediately after the bill passed.

The Department has also been strategically aligning maintenance facility locations to avoid impeding future economic growth. This may include entering into exchange transactions with various local political subdivisions in the future.

While SAFETEA-LU provides federal funding through September 30, 2009, the availability of funds from the Federal Trust Fund for future projects concerns Missouri and other Departments of Transportation.

CONTACTING THE DEPARTMENT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the Missouri Department of Transportation's interested parties, including citizens, taxpayers, customers, investors and creditors, with a general overview of the Department's finances and to demonstrate the Department's accountability for the money it receives. Questions about this report or requests for additional financial information should be addressed to the Missouri Department of Transportation, Controller's Division, P.O. Box 270, Jefferson City, MO 65102. This report is also included in the Report to the Joint Committee on Transportation Oversight and is available on the Department's web site at www.modot.mo.gov after presentation to the Joint Committee.

Government-wide Financial Statements

Statement of Net Assets

June 30, 2006

	Governmental Activities
Assets	
Current assets	
Cash and cash equivalents	$ 293,441,430
Investments	41,806,820
Restricted cash and investments	77,173,902
Taxes receivable – due from state funds	132,740,177
Loans receivable	421,158
Miscellaneous receivables, net	20,481,367
Federal government receivable	45,869,600
Inventories	37,672,733
Total current assets	649,607,187
Noncurrent assets	
Investments	37,926,639
Loans receivable	1,713,872
Miscellaneous receivables, net	9,044,537
Bond issue costs, net	4,400,439
Capital assets	
Assets not being depreciated	5,163,033,343
Assets being depreciated, net	20,446,382,349
Total noncurrent assets	25,662,501,179
Total assets	26,312,108,366
Liabilities	
Current liabilities	
Accounts payable	134,585,499
Accrued payroll	21,724,334
Accrued interest payable	19,568,556
Unearned revenue	15,932,307
Pending self-insurance claims	10,779,000
Incurred but not reported claims	13,973,000
Financing and other obligations	125,312,872
Total current liabilities	341,875,568
Noncurrent liabilities	
Pending self-insurance claims	28,854,416
Incurred but not reported claims	11,811,130
Financing and other obligations	1,186,375,976
Total noncurrent liabilities	1,227,041,522
Total liabilities	1,568,917,090
Net Assets	
Invested in capital assets, net of related debt	24,341,909,274
Restricted for:	
Internal service fund requirements	300,000
Equipment purchase commitment	242,813
Debt service	59,630,169
Highways and transportation	341,109,020
Total net assets	$ 24,743,191,276

The notes to the financial statements are an integral part of this statement.

Statement of Activities

Year Ended June 30, 2006

	Governmental Activities
Transportation Program Expenses	
Administration	$ 30,838,359
Fleet, facilities, and information systems	53,221,978
Maintenance	362,163,447
Construction	165,494,131
Multimodal operations	60,530,009
Interest on long-term debt	53,542,829
Other state agencies	146,969,066
Self-insurance	27,387,317
Medical and life insurance	92,951,721
Depreciation	829,556,033
Total transportation program expenses	1,822,654,890
Transportation Program Revenues	
Charges for services	
Licenses, fees, and permits	299,892,274
Intergovernmental/cost reimbursements/miscellaneous	46,089,480
Interest	75,823
Employee insurance premiums	26,216,354
Total charges for services	372,273,931
Federal government – operating	61,629,930
Federal government – capital	768,172,726
Total transportation program revenues	1,202,076,587
Net expense of transportation program	620,578,303
General Revenues	
Fuel tax	522,895,958
Sales and use tax	182,464,857
Unrestricted investment earnings	24,451,817
State appropriations	11,452,521
Donated assets	4,200
Gain on sale of capital assets	1,435,744
Total general revenues	742,705,097
Change in Net Assets	122,126,794
Net Assets, Beginning of Year	24,621,064,482
Net Assets, End of Year	$ 24,743,191,276

The notes to the financial statements are an integral part of this statement.

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Fund
Financial Statements

Balance Sheet

Governmental Funds

June 30, 2006

	State Highways and Transportation Department Fund	State Road Fund	State Road Bond Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	$ 11,479,891	$ 249,568,311	$ 4,417,187	$ 23,994,954	$ 289,460,343
Taxes receivable – due from state funds	109,294,906	17,484,639	4,141,642	1,818,990	132,740,177
Miscellaneous receivables, net	176,670	28,596,516	18,739	94,572	28,886,497
Federal government receivable	—	37,101,270	—	8,768,330	45,869,600
Due from other funds	—	49,368	—	—	49,368
Loans receivable	—	—	—	2,135,030	2,135,030
Inventories	—	37,672,733	—	—	37,672,733
Restricted cash and investments	—	76,873,902	—	—	76,873,902
Total assets	$ 120,951,467	$ 447,346,739	$ 8,577,568	$ 36,811,876	$ 613,687,650
Liabilities and Fund Balances					
Liabilities					
Accounts payable	$ 2,903,165	$ 120,657,553	$ 600	$ 10,004,107	$ 133,565,425
Accrued payroll	4,909,383	16,722,845	—	92,106	21,724,334
Deferred revenue	—	30,584,608	—	2,841,496	33,426,104
Due to other funds	—	—	—	49,368	49,368
Total liabilities	7,812,548	167,965,006	600	12,987,077	188,765,231
Fund balances					
Reserved for					
Equipment purchase commitment	—	1,047,858	—	—	1,047,858
Debt service	—	75,826,044	—	—	75,826,044
Loans receivable	—	—	—	2,135,030	2,135,030
Inventories	—	37,672,733	—	—	37,672,733
Unreserved, debt service fund	—	—	8,576,968	—	8,576,968
Unreserved, special revenue funds	113,138,919	164,835,098	—	21,689,769	299,663,786
Total fund balances	113,138,919	279,381,733	8,576,968	23,824,799	424,922,419
Total liabilities and fund balances	$ 120,951,467	$ 447,346,739	$ 8,577,568	$ 36,811,876	$ 613,687,650

The notes to the financial statements are an integral part of this statement.

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets

Governmental Funds

June 30, 2006

Fund balances – total governmental funds	$	424,922,419
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets, net of accumulated depreciation of $19,330,292,953 used in governmental activities are not financial resources and, therefore, are not reported in the funds.		25,609,415,692
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.		24,159,884
Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The assets and liabilities of the internal service funds are included in the statement of net assets.		11,550,246
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		(1,326,856,965)
Total net assets – governmental activities	$	24,743,191,276

The notes to the financial statements are an integral part of this statement.

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

Year Ended June 30, 2006

	State Highways and Transportation Department Fund	State Road Fund	State Road Bond Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues					
Fuel tax	$ 522,466,684	$ 106,978	$ —	$ 322,296	$ 522,895,958
Sales and use tax	33,440,318	109,364,007	30,237,443	9,423,089	182,464,857
Licenses, fees and permits	167,873,076	129,511,785	—	2,507,413	299,892,274
Intergovernmental/cost reimbursements/ miscellaneous	665,339	50,737,247	1,112	2,248,577	53,652,275
Investment earnings	2,526,678	18,833,408	344,684	551,246	22,256,016
Federal government	—	766,161,556	—	61,629,930	827,791,486
Total revenues	726,972,095	1,074,714,981	30,583,239	76,682,551	1,908,952,866
Expenditures					
Current					
Administration	—	42,843,184	—	—	42,843,184
Fleet, facilities, and information systems	—	68,752,527	—	—	68,752,527
Maintenance	—	387,192,838	—	24,654,287	411,847,125
Construction	—	190,712,514	—	—	190,712,514
Multimodal operations	—	225,367	—	60,450,818	60,676,185
Capital outlay	—	1,252,772,238	—	53,160	1,252,825,398
Debt service	—	109,688,915	22,006,271	—	131,695,186
Other state agencies	169,646,887	—	—	78,758	169,725,645
Total expenditures	169,646,887	2,052,187,583	22,006,271	85,237,023	2,329,077,764
Excess of revenues over (under) expenditures	557,325,208	(977,472,602)	8,576,968	(8,554,472)	(420,124,898)
Other Financing Sources (Uses)					
Long-term debt issued	—	1,787,376	—	—	1,787,376
Proceeds from the issuance of bonds	—	350,660,000	—	—	350,660,000
Premium on bonds	—	21,335,742	—	—	21,335,742
Net proceeds from capital leases	—	2,644,156	—	—	2,644,156
Proceeds from the sale of capital assets	22,061	6,633,945	—	12,950	6,668,956
Transfers in (out)	(570,526,438)	570,591,864	—	(65,426)	—
Transfers related to state appropriations	—	—	—	11,452,521	11,452,521
Total other financing sources (uses)	(570,504,377)	953,653,083	—	11,400,045	394,548,751
Net Change in Fund Balances	(13,179,169)	(23,819,519)	8,576,968	2,845,573	(25,576,147)
Fund Balances, Beginning of Year	126,318,088	303,201,252	—	20,979,226	450,498,566
Fund Balances, End of Year	$ 113,138,919	$ 279,381,733	$ 8,576,968	$ 23,824,799	$ 424,922,419

The notes to the financial statements are an integral part of this statement

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities

Year Ended June 30, 2006

Net change in fund balances – total governmental funds	$ (25,576,147)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays ($1,252,825,398) and donated assets ($4,200) exceeded depreciation ($829,556,033) in the current period.	423,273,565
In the statement of activities, only the gain on the sale of the capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the book value of the assets sold.	(5,233,211)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.	7,389,730
Proceeds from the issuance of long-term debt provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the net effect of the differences in the treatment of long-term debt obligations and related items.	(289,855,431)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.	11,235,717
Internal service funds are used by management for the medical and life insurance and self-insurance plans. The net revenue (expense) of internal service funds is reported with governmental activities.	892,571
Change in net assets – governmental activities	$ 122,126,794

Statement of Net Assets

Proprietary Funds

June 30, 2006

	Internal Service Funds
Assets	
Current assets	
Cash and cash equivalents	$ 3,981,087
Investments	41,806,820
Restricted investments	300,000
Miscellaneous receivables	639,407
Total current assets	46,727,314
Noncurrent assets	
Investments	37,926,639
Total noncurrent assets	37,926,639
Total assets	84,653,953
Liabilities	
Current liabilities	
Accounts payable	1,020,074
Deferred revenue	6,666,087
Pending self-insurance claims	10,779,000
Incurred but not reported claims	13,973,000
Total current liabilities	32,438,161
Noncurrent liabilities	
Pending self-insurance claims	28,854,416
Incurred but not reported claims	11,811,130
Total noncurrent liabilities	40,665,546
Total liabilities	73,103,707
Net Assets	
Restricted net assets	300,000
Unrestricted net assets	11,250,246
Total net assets	$ 11,550,246

The notes to the financial statements are an integral part of this statement.

Statement of Revenues, Expenses and Changes in Net Assets

Proprietary Funds

Year Ended June 30, 2006

	Internal Service Funds
Operating Revenues	
Self-insurance premiums	
Highway workers' compensation	$ 10,872,000
Highway patrol workers' compensation	6,948,238
Highway fleet vehicle liability	1,547,998
General liability	5,871,108
Medical insurance premiums	
State	64,990,190
Member	26,216,354
Other	2,514,097
Total operating revenues	118,959,985
Operating Expenses	
Self-insurance programs	
Highway workers' compensation	6,468,409
Highway patrol workers' compensation	2,588,673
Highway fleet vehicle liability	1,353,873
Highway general liability	16,007,810
Other	968,552
Medical and life insurance program	
Insurance premiums	5,434,594
Medical benefits	67,121,510
Prescription drug benefits	16,670,645
Professional fees	1,188,620
Administrative services	2,468,332
Other	68,020
Total operating expenses	120,339,038
Operating (loss)	(1,379,053)
Nonoperating Revenues	
Net appreciation and investment income	2,271,624
Total nonoperating revenues	2,271,624
Change In Net Assets	892,571
Net Assets, Beginning of Year	10,657,675
Net Assets, End of Year	$ 11,550,246

The notes to the financial statements are an integral part of this statement.

Statement of Cash Flows

Proprietary Funds

Year Ended June 30, 2006

	Internal Service Funds
Cash Flows From Operating Activities	
Receipts from interfund services provided	$ 119,097,934
Payments for interfund services used	(105,316,311)
Payments to suppliers	(4,938,741)
Net cash provided by operating activities	8,842,882
Cash Flows From Investing Activities	
Proceeds from sale and maturities of investments	372,404,414
Purchase of investments	(402,949,247)
Interest received	1,936,522
Investment fees	(53,715)
Net cash (used in) investing activities	(28,662,026)
Net (decrease) in cash and cash equivalents	(19,819,144)
Cash and Cash Equivalents, Beginning of Year	23,800,231
Cash and Cash Equivalents, End of Year	$ 3,981,087
Reconciliation of Operating (Loss) to Net Cash Provided by Operating Activities	
Operating (loss)	$ (1,379,053)
Adjustments to reconcile operating (loss) to net cash provided by operating activities:	
Decrease in receivables	137,949
Increase in accounts payable	10,125,892
Decrease in deferred revenue	(41,906)
Net cash provided by operating activities	$ 8,842,882
Noncash Items Impacting Recorded Assets – Increase in Fair Value of Investments	$ 127,876

The notes to the financial statements are an integral part of this statement.

Statement of Assets and Liabilities

Fiduciary Funds

June 30, 2006

		Agency Funds
Assets		
Cash and cash equivalents	$	1,465,443
Investments		16,192,547
Accounts receivable		2,730,924
Other		686,010
Total assets	$	21,074,924
Liabilities		
Due to other governments	$	11,645,683
Advances from other governments		9,429,241
Total liabilities	$	21,074,924

The notes to the financial statements are an integral part of this statement.

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Notes to the Financial Statements

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INDEX FOR THE NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2006

Note 1: Summary of Significant Accounting Policies

The State Highway Department was created in 1913 to act as the agent of the State of Missouri (the State) for public roads. The State Highway Commission was created in 1921 with the passage of the Centennial Road Law and was charged with the administration of the network of connecting state highways, including their location, design, construction, and maintenance.

In 1979, the voters of the State passed a constitutional amendment merging the State Highway Department with the Department of Transportation. The resulting department was named the Missouri Highways and Transportation Department by statute. The constitutional amendment gave a newly created Highways and Transportation Commission (the MHTC or Commission) the authority over all state transportation programs and facilities. The Commission is a bipartisan body of six members appointed by the Governor with the consent of the Senate for a term of six years. In 1996, by legislative action, the Missouri Highways and Transportation Department became the Missouri Department of Transportation (MoDOT or Department).

In 2002, several programs from other state agencies were combined into MoDOT. This was the result of legislative action and the Governor's Executive Order, which created the "One-Stop Shop" for motor carrier services (MCS), railroad operators and overdimension and overweight permitting. In 2003, by Governor's Executive Order, the Division of Highway Safety was transferred from the Department of Public Safety to MoDOT. This change was part of the Governor's Reorganization Plan of 2003, to merge both the Division of Highway Safety and MoDOT activities related to the state highway system and its safe operation. In 2006, the unit that audits motor carrier operators was transferred to MoDOT from the Department of Revenue. This unit is responsible for auditing International Fuel Tax Agreement tax returns and International Registration Plan applications.

(A) Financial Reporting Entity

Governmental Accounting Standard Board (GASB) Statement 14, The Financial Reporting Entity, establishes the criteria to be used for defining primary governments, component units, and related organizations. The Department does not meet the GASB's criteria to be reported as its own primary government or other stand-alone government. It is part of the primary government of the State and, like other state agencies, is included in the financial statements of the State.

Certain legally separate organizations are involved in transportation-related projects, such as the Missouri Transportation Finance Corporation (MTFC) and other transportation corporations. Although these organizations cooperate with the Department to meet their objectives, they are not part of the Department's reporting entity, but are included in the financial statements of the State as component units.

The State's Comprehensive Annual Financial Report may be obtained by writing to the State of Missouri, Office of Administration, Division of Accounting, P. O. Box 809, Jefferson City, MO 65102.

(B) Government-wide and Fund Financial Statements

Government-wide Statements – The government-wide statement of net assets and statement of activities report the overall financial activities of the Department, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. The financial activities of the Department consist only of governmental activities, which are primarily supported by taxes and intergovernmental revenues.

The Department creates a single function – Transportation. The statement of activities demonstrates the degree to which the direct expenses of that function are offset by program revenues. Direct expenses are those that are clearly identifiable with the function. Program revenues include (a) charges paid by the recipients of goods or services offered by the program and (b) grants and contributions that are restricted to meeting the operational or capital requirements of the program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements – The fund financial statements provide information about the Department's funds, including its fiduciary funds. Separate statements for each fund category – governmental, proprietary and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The Department reports the following major governmental funds:

State Highways and Transportation Department Fund (Highway Fund) – This special revenue fund is established by Section 226.200, Revised Statutes of Missouri (RSMo). This fund receives revenues derived from the use of state highways. This fund pays the costs incurred to collect that revenue, to administer and enforce any state motor vehicle laws or traffic regulations and to provide other related functions.

State Road Fund (Road Fund) – This special revenue fund is constitutionally established to receive monies from the state's motor vehicle sales tax, the federal government, transfers from the Highway Fund, and any other revenues held by the Department not required to be in another fund. Disbursements consist of costs incurred to construct, improve, and maintain the state highway system and for debt service payments.

State Road Bond Fund – This debt service fund is constitutionally established to receive monies from the state's motor vehicle sales tax. Monies are used for the repayment of bonds issued by the Commission to fund the construction and reconstruction of the state highway system or for refunding bonds.

The Department reports the following additional fund types:

Internal Service Funds – These proprietary funds account for the financing of services provided to other funds within the Department and other participating agencies on a cost-reimbursement basis. These funds are used to account for medical and life insurance coverage and self-insurance activities. Department activity comprises the majority of these funds. These funds are included in the government-wide statements by eliminating off-setting revenues and expenses.

Agency Funds – These fiduciary funds account for monies held on behalf of various political subdivisions and other interested parties and will be used to reimburse the Department for expenditures incurred by the Department on behalf of the previously mentioned parties and to collect and administer registration license fees and fuel taxes payable to contiguous states, Canadian provinces, and to cities and counties. These funds are not included in the government-wide statements.

(C) Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions in which the Department gives (or receives) value without directly receiving (or giving) equal value in exchange include fuel taxes, sales and use taxes, Medicare Part D federal subsidy, grants, entitlements, and donations. On an accrual basis, revenues from fuel taxes and sales and use taxes are recognized in the fiscal year in which the underlying exchange transaction occurs. Revenues from Medicare Part D, based on the current funding level from the federal government, are recognized in the fiscal year in which the revenue generating transaction occurs. Because potential retroactive adjustments to the federal subsidy are not measurable, the revenue impact is recognized in the fiscal period in which an adjustment is made by the federal government. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements imposed by the provider have been met.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Department, consistent with the State of Missouri, considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are recorded as other financing sources.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. The Department's operating revenues and expenses generally result from providing services in connection with the internal service funds' principal ongoing operations. The principal operating revenues are charges for insurance premiums. Operating expenses include self-insurance claims, benefits claims, insurance premiums and administrative expenses. Investment income is reported as nonoperating revenue**.**

When both restricted and unrestricted resources are available for use, it is the Department's policy to use restricted resources first, then unrestricted resources as they are needed.

(D) Assets, Liabilities and Net Assets

Cash and Cash Equivalents

Cash and cash equivalents include cash and repurchase agreements, which are investments with original maturities of three months or less.

Inventories

Inventories, primarily consisting of maintenance and sign shop materials, are valued at cost using the weighted average method. Inventories are recorded in the governmental funds as expenditures when consumed rather than when purchased.

Interfund Transactions

The Department has the following types of interfund transactions between Department funds and funds of other State agencies:

Reimbursements – repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them. Reimbursements are reported as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund.

Transfers – flows of assets (such as cash or goods) without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the funds making transfers and as other financing sources in the funds receiving transfers. In proprietary funds, transfers are reported after nonoperating revenues and expenses.

Capital Assets

Capital assets, such as land, buildings, equipment, and infrastructure assets, are reported at cost (or estimated historical cost) as governmental activities in the government-wide financial statements. Infrastructure assets are those assets that are normally immovable and of value to the citizens of the State of Missouri, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items. The Department capitalizes assets with an expected useful life of more than one year with a cost of greater than $1,000 for equipment and $15,000 for buildings and land improvements. No dollar threshold is set for land and infrastructure. Donated capital assets are recorded at their fair market value at the date of the donation.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense, including amortization on leased capital assets, is recorded in the government-wide financial statements.

Capital assets, including infrastructure, are depreciated on the straight-line method over the asset's estimated useful life. There is no depreciation recorded for land, construction in progress, and infrastructure in progress. Generally, estimated useful lives are as follows:

Vehicles, machinery and equipment	1 to 20 years
Buildings and other improvements	10 to 50 years
Infrastructure	12 to 50 years

Deferred Revenue

The Department has recorded deferred revenue in the Road Fund relating to long-term cost reimbursement receivables and in nonmajor funds relating to local matches for pass-through funds. Deferred revenue in the internal service funds is employee medical insurance premiums received and held for the subsequent month's coverage. These amounts are reported as deferred because they are unearned as of year-end.

Compensated Absences

Under the terms of the Department's personnel policy, Department employees are granted 10 to 14 hours of annual leave per month. Additionally, certain employees can accrue a maximum of 240 hours of compensatory time for unpaid overtime. Employees have accrued annual leave and compensatory time available amounting to $31,838,878 as of June 30, 2006 that is recorded in the government-wide financial statements. Because employees are not paid for accumulated sick leave upon retirement or termination no liability has been recorded for accumulated sick leave.

Bond Premiums, Discounts, and Issuance Costs

In the government-wide financial statements, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums on debt issuances are reported as other financing sources and discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Reservations of Fund Balances

In the fund financial statements, governmental funds report reservations of fund balances to indicate that a portion of the fund balance is not available for appropriations or is restricted by law or contract for a specific purpose.

Net Assets

In the government-wide and proprietary fund financial statements, equity may be displayed in three components as follows:

Invested in Capital Assets, Net of Related Debt – This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – This consists of net assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. This also includes unexpended bond or lease proceeds less the related outstanding liability.

Unrestricted – This consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

The entire amount of the June 30, 2006 restricted net assets, $401,282,002, is restricted by enabling legislation.

Use of Estimates

The preparation of financial statements in conformity with Generally Accepted Accounting Principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses or expenditures and other changes in net assets or fund balances during the reporting period. Actual results could differ from those estimates.

Note 2: Deposits and Investments

Cash and investments include amounts held by the State Treasurer's Office as required by the state constitution for all state funds of the primary government. Interest income earned on cash and investments in the State Treasury is allocated to the funds based on the respective investment and cash balances. In addition, cash and investments also include funds held in depository banks, as allowed by state statute.

By policy, investments may include time deposits, linked deposits, certificates of deposit, commercial paper, bankers' acceptances, repurchase agreements and reverse repurchase agreements, and U.S. Treasury and federal agency securities. The Department's investments are reported at fair value. At June 30, 2006, the Department had $96,125,094 of uninsured, unregistered government sponsored securities and $5,218,690 of repurchase agreements for which the securities are held by a financial institution's trust department in the Commission's or State's name.

Interest Rate Risk – The State Treasurer's Office minimizes the risk that the market value of investments will fall due to changes in general interest rates by maintaining an effective duration of less than 1.5 years and holding at least 40 percent of the portfolio's total market value in securities with a maturity of 12 months or less. The investment portfolio of funds held outside the State Treasurer's Office are structured so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.

Credit Risk – The State Treasurer's Office minimizes the risk of loss due to the failure of a security issuer or backer by pre-approving financial institutions, companies, brokers and dealers, and conducting regular credit monitoring and due diligence. The investment portfolio of funds held outside the State Treasurer's Office are limited to the safest types of securities, as described above. Both portfolios are diversified so that potential losses on individual securities will be minimized. U.S. agency securities not explicitly guaranteed by the U.S. Government have been rated AAA by Standard and Poor's Rating Services.

Concentration of Credit Risk – Investments are diversified and limits are set to minimize the risk of loss resulting from excess concentration into a specific maturity, issuer or class of security. The asset allocation is periodically reviewed by the State Treasurer and the Department's investment advisor. No investments in any one organization (other than those issued or sponsored by the U.S. Government and those in pooled investments) represent five percent of total investments.

At June 30, 2006, the Department's cash and investments consisted of the following:

	State Highways and Transportation Department Fund	State Road Fund	State Road Bond Fund	Nonmajor Funds	Internal Service Funds	Agency Funds
Cash and investments:						
Cash and investments pooled in the State treasury	$ 11,479,891	$ 249,568,311	$ 4,417,187	$ 23,994,954	$ —	$ —
Cash deposited with banks	—	—	—	—	4,151	—
Government-sponsored securities	—	—	—	—	79,732,547	—
Certificate of deposit	—	—	—	—	912	—
Repurchase agreements	—	—	—	—	3,976,936	—
	$ 11,479,891	$ 249,568,311	$ 4,417,187	$ 23,994,954	$ 83,714,546	$ —
Restricted assets:						
Cash and investments pooled in the State treasury	$ —	$ 75,826,044	$ —	$ —	$ —	$ —
Cash deposited with banks	—	1,047,858	—	—	—	223,689
Government-sponsored securities	—	—	—	—	200,000	16,192,547
Certificate of deposit	—	—	—	—	100,000	—
Repurchase agreements	—	—	—	—	—	1,241,754
	$ —	$ 76,873,902	$ —	$ —	$ 300,000	$ 17,657,990

At June 30, 2006, the Department's investments had the following maturities:

Investment type	Fair Value	Investment maturities (in years) Less than 1	1	2	3 or more
Repurchase agreements	$ 5,218,690	$ 5,218,690	$ —	$ —	$ —
Certificate of deposit	100,912	100,912	—	—	—
U.S. Treasury securities	207,333	207,333	—	—	—
U.S. agency securities	95,917,761	54,576,863	25,927,950	7,847,250	7,565,698
Total	$ 101,444,696	$ 60,103,798	$ 25,927,950	$ 7,847,250	$ 7,565,698

Note 3: Taxes

Tax revenues for the year ended June 30, 2006 were as follows:

	State Highways and Transportation Department Fund	State Road Fund	State Road Bond Fund	Nonmajor Funds	Total
Fuel tax	$ 522,466,684	$ 106,978	$ —	$ 322,296	$ 522,895,958
Sales & use tax	33,440,318	109,364,007	30,237,443	9,423,089	182,464,857
	$ 555,907,002	$ 109,470,985	$ 30,237,443	$ 9,745,385	$ 705,360,815

Taxes are remitted by the Missouri Department of Revenue to the Department subsequent to collection. The Department receives the following taxes:

- **Fuel tax** is paid on the sale of gasoline, aviation fuel used in propelling aircraft with reciprocating engines, and diesel fuel authorized by Sections 142.010 – 142.350; 155.080 and 155.090; and 142.362 – 142.621, RSMo, respectively. The tax rate on gasoline and diesel fuels is $0.17 per gallon. The Department receives 75 percent of the first $0.11 and 70 percent of the next $0.06. The remaining tax is distributed to cities and counties. In addition, the Department receives the entire tax on aviation fuel of $0.09 per gallon.
- **Sales and use taxes** are paid on the purchase of any new or used motor vehicle or trailer, on vehicles purchased out of state and titled in Missouri, or on the sale of a vehicle between individuals within Missouri. The taxes are authorized by Sections 144.070 and 144.440, RSMo. The general sales tax rate is 3 percent and Proposition C tax (Section 144.701, RSMo) is 1 percent for a total of 4 percent. The Department receives 46.875 percent of the sales tax. The remainder is distributed to cities, counties, school districts, and the State's general revenue. The Department receives 100 percent of the 3 percent general use tax and 75 percent of the Proposition C use tax. The other 25 percent of the Proposition C use tax is distributed to cities and counties. In addition, the Department receives sales and use tax on aviation jet fuel, to a maximum of $6.0 million in each calendar year.

Note 4: Interfund Transactions

The Department is required by State statute (RSMo 226.200) to transfer any unspent monies in the Highway Fund to the State Road Fund. Transfers for the year ended June 30, 2006 were as follows:

	Transfers In	Transfers Out
State Highways and Transportation Department Fund	$ 90,000	$ 570,616,438
State Road Fund	570,616,438	24,574
Nonmajor Funds	24,574	90,000
	$ 570,731,012	$ 570,731,012

The due to/from the Road Fund and non-major funds represent reimbursements for expenditures related to modes of transportation other than highways. Amounts due to/from other funds as of June 30, 2006 were as follows:

	Due To	Due From
Nonmajor Funds	$ —	$ 49,368
State Road Fund	49,368	—
	$ 49,368	$ 49,368

Note 5: Receivables

Receivables at June 30, 2006 for the government's individual major funds, nonmajor funds, and internal service funds were as follows:

Type	State Highways and Transportation Department Fund	State Road Fund	State Road Bond Fund	Nonmajor Funds	Internal Service Funds	Total	Due Within One Year
Taxes, licenses & fees	$ 109,294,906	$ 17,484,639	$ 4,141,642	$ 1,818,990	$ —	$ 132,740,177	$ 132,740,177
Miscellaneous:							
Reimbursements	—	27,126,231	—	523	70,796	27,197,550	18,153,013
Interest	176,670	1,470,285	18,739	94,049	555,699	2,315,442	2,315,442
Contributions	—	—	—	—	12,912	12,912	12,912
Total miscellaneous	176,670	28,596,516	18,739	94,572	639,407	29,525,904	20,481,367
Federal government	—	37,101,270	—	8,768,330	—	45,869,600	45,869,600
Loans	—	—	—	2,135,030	—	2,135,030	421,158
	$ 109,471,576	$ 83,182,425	$ 4,160,381	$ 12,816,922	$ 639,407	$ 210,270,711	$ 199,512,302

Reimbursement receivables consist of receivables from various political subdivisions and other interested parties to reimburse for expenditures incurred by MoDOT on behalf of these entities. Also included are receivables from contractors and other parties awaiting settlement on billing issues. Reimbursement receivables are shown net of an allowance for doubtful accounts of $961,609. The Department provides an allowance based upon a review of the outstanding receivables, historical collection information and existing economic conditions.

The federal government receivable represents funds to be received on federally participating projects. Loans receivable represent loans to the cities and counties for nonhighway-related projects.

Note 6: Capital Assets

Changes in capital assets for the year ended June 30, 2006 are summarized below:

	Beginning Balance	Additions	Deletions/ Retirements	Transfers	Ending Balance
Nondepreciable capital assets					
Land	$ 1,997,678,629	$ 208,985	$ 2,130,679	$ 155,326,140	$ 2,151,083,075
Construction in progress	323,358,405	66,937,113	—	(176,267,216)	214,028,302
Infrastructure in progress	2,748,642,657	1,100,162,713	—	(1,050,883,404)	2,797,921,966
Total nondepreciable capital assets	5,069,679,691	1,167,308,811	2,130,679	(1,071,824,480)	5,163,033,343
Depreciable capital assets					
Land improvements	12,266,095	—	225,272	1,906,057	13,946,880
Buildings	196,069,217	113,978	3,451,242	19,035,019	211,766,972
Equipment	252,962,011	26,609,626	13,248,770	—	266,322,867
Vehicles	163,461,926	26,741,287	14,165,620	—	176,037,593
Infrastructure	38,064,362,859	32,055,896	38,701,169	1,050,883,404	39,108,600,990
Total depreciable capital assets	38,689,122,108	85,520,787	69,792,073	1,071,824,480	39,776,675,302
Accumulated depreciation – land improvements	6,200,680	458,603	161,832	—	6,497,451
Accumulated depreciation – buildings	59,391,846	6,408,757	2,328,832	—	63,471,771
Accumulated depreciation – equipment	139,248,159	23,926,973	12,175,768	—	150,999,364
Accumulated depreciation – vehicles	95,246,138	16,477,334	13,321,940	—	98,401,532
Accumulated depreciation – infrastructure	18,267,339,638	782,284,366	38,701,169	—	19,010,922,835
Total accumulated depreciation	18,567,426,461	829,556,033	66,689,541	—	19,330,292,953
Total depreciable capital assets, net	20,121,695,647	(744,035,246)	3,102,532	1,071,824,480	20,446,382,349
Total capital assets	$ 25,191,375,338	$ 423,273,565	$ 5,233,211	$ —	$ 25,609,415,692

Note 7: Long-term Obligations

Changes in long-term obligations for the year ended June 30, 2006 were as follows:

Type of Issue	Beginning Balance	Additions	Reductions	Discount Accreted	Ending Balance	Due Within One Year
State road bonds	$ 828,500,000	$ 350,660,000	$ 59,275,000	$ —	$ 1,119,885,000	$ 73,350,000
Advances from other governments	12,346,457	370,706	—	—	12,717,163	200,000
Advances from State of Missouri component units	53,483,318	1,416,670	14,643,811	403,117	40,659,294	16,336,809
Federal Highway Administration loan	15,000,000	—	—	—	15,000,000	—
Capital leases	53,513,675	2,644,156	12,653,032	—	43,504,799	9,462,565
Claims and judgments payable	19,282,740	12,243	7,756,475	—	11,538,508	2,017,296
Compensated absences	31,096,819	24,688,261	23,946,202	—	31,838,878	23,946,202
	$ 1,013,223,009	$ 379,792,036	$ 118,274,520	$ 403,117	1,275,143,642	$ 125,312,872
Add premium					36,545,206	
					$ 1,311,688,848	

Payments on state road bonds, advances from other governments, advances from component units of the State of Missouri, loan from the Federal Highway Administration and capital leases are made from the Road Fund. Payments for claims and judgments are also made from the Road Fund. Compensated absences liabilities are liquidated by the governmental funds from which the related salaries are paid.

The detail of long-term debt at June 30, 2006 follows:

State road bonds:	
Series A 2000 State Road bonds to accelerate projects in the Department's five-year plan due in annual installments of $6,610,000 to $20,315,000 beginning February 1, 2002; interest varying from 4.30 percent to 5.63 percent; secured by revenues collected under Article IV, Section 30(b) of the Missouri Constitution.	$ 206,805,000
Series A 2001 State Road bonds to finance projects in conformity with the priorities established in the 1992 plan developed by the Department due in annual installments of $7,110,000 to $15,605,000 beginning February 1, 2003; interest varying from 2.25 percent to 5.125 percent; secured by revenues collected under Article IV, Section 30(b) of the Missouri Constitution.	170,365,000
Series A 2002 State Road bonds to finance projects in conformity with the priorities established in the 1992 plan developed by the Department due in annual installments of $7,435,000 to $15,830,000 beginning February 1, 2004; interest varying from 3.00 percent to 5.25 percent; secured by revenues collected under Article IV, Section 30(b) of the Missouri Constitution.	180,115,000
Series A 2003 State Road bonds to finance projects in conformity with the priorities established in the 1992 plan developed by the Department due in annual installments of $8,125,000 to $18,910,000 beginning February 1, 2005; interest varying from 2.00 percent to 5.00 percent; secured by revenues collected under Article IV, Section 30(b) of the Missouri Constitution.	235,775,000
Series A 2005 State Road bonds to finance projects pursuant to the Smoother, Safer, Sooner road and bridge program, due in annual installments of $23,835,000 to $33,940,000 beginning May 1, 2006; interest varying from 2.50 percent to 5.00 percent; secured by revenues collected under Article IV, Section 30(b) of the Missouri Constitution.	254,825,000
Series B 2005 State Road bonds to finance projects pursuant to the Smoother, Safer, Sooner road and bridge program, due in 2015; variable interest rate determined weekly, not to exceed 10 percent or the maximum rate permitted by law; secured by revenues collected under Article IV, Section 30(b) of the Missouri Constitution.	72,000,000
	$ 1,119,885,000

The Series 2000, 2001, 2002, and 2003 bonds are Senior Bonds and would take priority in payment over other bonds. The Series A 2005 bonds are First Lien bonds and the Series B 2005 bonds are Third Lien bonds. There are currently no Second Lien bonds.

The Series B 2005 State Road bonds were issued as variable rate instruments with weekly rate changes. The remarketing agents determine the interest rate as the lowest rate that will permit the bonds to be sold at par. During the year, interest rates ranged from 1.96 percent to 3.95 percent. Accrued interest is paid on a monthly basis. These bonds are demand obligations and are subject to tender. If the tendered bonds cannot be remarketed, the remarketing agents have agreed to purchase the bonds and hold them for a maximum of 180 days. Through June 30, 2006, all bonds tendered have been remarketed within 180 days. The remarketing agents receive quarterly fees of 7.5 basis points of amounts outstanding to provide for the service.

Under an irrevocable letter of credit issued by State Street Bank and Trust Company, the bank is obligated to pay the bond trustee the purchase price of bonds not remarketed. The letter of credit expires July 21, 2012. As of June 30, 2006, no amounts have been drawn on the letter of credit.

If monies are drawn on the letter of credit, the Commission may pay the purchase price of the bonds or obtain a liquidity advance, payable 60 days following the advance, with interest at the federal funds rate plus 0.5 percent. The Commission may enter into a term loan of up to three years bearing interest at a rate equal to the federal funds rate plus 1.5 percent. If the term loan were to be utilized because the entire issue of $72,000,000 was not resold, the Commission would be required to pay $13,455,000 semi-annually for 3 years, assuming a 6.75 percent interest rate. The Department pays quarterly fees of 17 basis points to the bank.

Advances from other governments:	
County of St. Charles to provide for a location, needs and cost study of a river crossing on Highway 40 between St. Louis County and St. Charles County; principal due on July 1, 2020; no interest will accrue.	$ 644,498
County of St. Charles for the final design of Route 364, from west of Harvester Road to west of Central School Road; principal due on July 1, 2008; no interest will accrue.	800,000
City of O'Fallon to accelerate a portion of the Route 364 (Page Avenue Extension) project, which consists of constructing a south outer road parallel to Route N between Winghaven Blvd. to Missouri Route K; principal due July 1, 2015; no interest will accrue.	8,835,335
City of Monett to make improvements to Route 60 in Barry County from 1.2 miles east of Route 37 to 1.8 miles east of Route 37; principal due in 2010; no interest will accrue.	1,120,692
City of O'Fallon to extend Bryan Road from Feise Road to Route N across the Route 364 (Page Avenue Extension) right of way; principal due on December 31, 2008; no interest will accrue.	790,000
City of Jackson to make improvements to Routes I-55 and 61/34 in Cape Girardeau County; principal due November 12, 2006; no interest will accrue.	200,000
County of Taney to install traffic signals on Route 65; principal due after July 31, 2007; no interest will accrue.	126,638
County of St. Charles to make improvements to Routes I-70 and K; principal due July 1, 2009; no interest will accrue.	200,000
	$ 12,717,163
Advances from State of Missouri component units:	
Highway 179 Transportation Corporation for the construction of Highway 179; principal payments due yearly through August 1, 2008; principal payments range from $2,140,734 to $3,784,974.	$ 9,870,852
210 Highway Transportation Development District for the widening of 210 Highway; principal payments will occur yearly on July 1, through 2008; principal payments range from $965,504 to $2,375,000; no interest will accrue.	6,622,686
Fulton 54 Transportation Corporation for the right of way acquisition and utility adjustments for Route 54 and HH interchange; principal payments will occur yearly on September 1, through 2007; no interest will accrue.	3,365,000
Wentzville Parkway Transportation Corporation for the expansion and reconstruction of the I-70 interchange and Wentzville Parkway; principal payment due July 1, 2006; no interest will accrue.	8,849,811
Missouri Transportation Finance Corporation for right of way and construction-related cost for two additional lanes on Highway 63; principal and interest payments will occur yearly on July 1, through 2010; the interest rate is 3.232 percent.	11,950,945
	$ 40,659,294
Federal loan:	
Federal Highway Administration loan; for the extension of Page Avenue in St. Charles; principal payment due as early as January 1, 2011; no interest will accrue.	$ 15,000,000

Annual debt service requirements to maturity are indicated in the following schedule. The interest amounts for the demand obligation bonds reflect the year-end rate of 3.95 percent and are based upon the current debt service schedule.

Fiscal Year	Principal Due	Interest Due	Total Due
State road bonds			
2007	$ 73,350,000	$ 54,011,463	$ 127,361,463
2008	69,105,000	50,943,063	120,048,063
2009	71,920,000	47,840,058	119,760,058
2010	75,020,000	44,468,755	119,488,755
2011	78,380,000	40,856,175	119,236,175
2012 – 2016	405,495,000	143,510,874	549,005,874
2017 – 2021	293,810,000	55,823,393	349,633,393
2022 – 2023	52,805,000	3,376,182	56,181,182
	$ 1,119,885,000	$ 440,829,963	$ 1,560,714,963
Advances from other governments			
2007	$ 200,000	$ —	$ 200,000
2008	126,638	—	126,638
2009	1,590,000	—	1,590,000
2010	1,320,692	—	1,320,692
2011	—	—	—
2012 – 2016	8,835,335	—	8,835,335
2017 – 2021	644,498	—	644,498
	$ 12,717,163	$ —	$ 12,717,163
Advances from State of Missouri component units			
2007	$ 16,336,809	$ 314,936	$ 16,651,745
2008	12,501,620	607,224	13,108,844
2009	11,653,942	319,826	11,973,768
2010	166,923	5,396	172,319
	$ 40,659,294	$ 1,247,382	$ 41,906,676
Federal Loan			
2011	$ 15,000,000	$ —	$ 15,000,000

On May 30, 2000, the Governor signed legislation that authorized the Commission to issue up to $2 billion in bonds in fiscal years 2001 to 2006, plus an additional $250 million in bonds, subject to certain requirements. On November 2, 2004, Missouri voters approved Amendment 3, which overrides the limitations in the statutes on the amount of state road bonds that may be issued by the Commission.

On December 15, 2003, the Commission entered into a line-of-credit with the MTFC. The maximum amount available in the line-of-credit is the total uncommitted balance of the MTFC accounts. The primary purpose of the loan is to finance federally funded construction projects in the event of federal reimbursement delays for Road Fund projects. The Commission will make a lump-sum payment of principal and interest three months after the loan is advanced. At June 30, 2006, no advances had been made to MoDOT on the line-of-credit agreement.

Capital lease obligations:
The Department is committed under several capital leases to finance the acquisition of various vehicles and equipment, as well as a building. Lease-purchase agreements for equipment, vehicles and the building grant a security interest in the related capital assets. The assets acquired through these capital leases are included in capital assets as follows:

Building	$ 3,996,000
Equipment	9,378,868
Vehicles	32,384,393
Total capital leased assets	45,759,261
Accumulated depreciation	5,621,999
Capital leased assets, net	$ 40,137,262

The following schedule presents the future minimum lease payments under the capital leases and the present value of the future minimum lease payments as of June 30, 2006:

2007	$ 11,323,112
2008	9,470,706
2009	8,911,882
2010	8,613,869
2011	7,911,111
2012 – 2016	3,729,000
Total minimum lease payments	49,959,680
Less: amount representing interest	6,454,881
Present value of minimum lease payments	$ 43,504,799

Note 8: Risk Management

The Department is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In addition, various lawsuits against the Department arise incident to the Department's normal operations. These risks have been classified as workers' compensation, vehicle liability, general liability, condemnation and inverse condemnation, contractor suits, employment suits, environmental regulatory liability, and levy and drainage district suits. It is the policy of the Department to manage its risks internally, with the exception of a purchased earthquake insurance policy.

(A) The Department sets aside assets for the settlement of workers' compensation, vehicle liability and general liability claims in an internal service fund, the MHTC Self-Insurance Fund. Section 537.610, RSMo limits the liability of the State and its public entities on claims within the scope of Sections 537.600 to 537.650, except for those claims governed by the provisions of the Missouri Workers' Compensation Law, Chapter 287, RSMo. For 2006, the limits were $2,303,326 for all claims arising out of a single accident or occurrence and $345,499 for any one person in a single accident or occurrence, as set by the Missouri Department of Insurance.

Workers' compensation, vehicle and general liabilities are reported based on actuarial calculations. Estimated pending self-insurance claims represents the expected losses to be realized on known claims pending. Estimated unreported claims represent expected losses or claims incurred but not reported. Liabilities for incurred losses related to workers' compensation and general and vehicle liability claims are reported at their discounted value, assuming an investment yield of 4 percent.

Changes in pending self-insurance claims and incurred but not reported claims for workers' compensation, vehicle and general liability during the past two years are as follows:

	Beginning Balance	Current Claims and Estimate Changes	Claim Payments	Ending Balance
2006	$ 45,927,437	$ 26,706,895	$ 16,777,786	$ 55,856,546
2005	$ 39,947,945	$ 20,406,386	$ 14,426,894	$ 45,927,437

(B) Claims for condemnation and inverse condemnation, contractor suits, levy and drainage district suits, environmental regulatory liability, and employment suits are paid from the State Road Fund. Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. As listed in Note 7, the Department has approximately $11,538,508 in claims and judgments payable at June 30, 2006. The Department is involved in other such suits for which no liability has been recorded, as a probable loss has not occurred. The aggregate potential liability of all claims deemed probable or possible to result in a loss is estimated to be approximately $12,288,723 within a range of $8,970,004 and $38,129,578.

Note 9: Insurance Plan

The MoDOT and Missouri State Highway Patrol (MSHP) Insurance Plan (the Medical and Life Insurance Plan) Internal Service Fund accounts for the medical coverage provided on a self-insured basis and life insurance benefits, underwritten by a commercial insurance company. These benefits are available to employees, retirees, certain disabled employees, spouses, certain dependents, and survivors of deceased employees and retirees of the Department, the Missouri State Highway Patrol, and the MoDOT and Patrol Employees' Retirement System. Changes to the plan are required to be approved by the Commission. Incurred but not reported claims of $9,561,000 are reported in the Medical and Life Insurance Plan as of June 30, 2006.

Claims incurred but not reported represent estimated unreported claims. This liability is established from an actuarial report, which is based on data provided by the Department and claims administrators. Changes in this incurred but not reported claims liability during the past two years are as follows:

	Beginning Balance	Current Claims and Estimate Changes	Claim Payments	Ending Balance
2006	$ 9,119,000	$ 83,792,155	$ 83,350,155	$ 9,561,000
2005	$ 8,250,000	$ 73,998,627	$ 73,129,627	$ 9,119,000

Note 10: Defined Benefit Pension Plan

The MoDOT and Patrol Employees' Retirement System (MPERS) was established, and is administered by a board of trustees, in accordance with State statutes. As the plan includes employees outside of the Department, the MPERS is disclosed in accordance with the requirements of a cost-sharing, multiple-employer, public employee retirement plan. The MPERS provides retirement, death, and disability benefits to full-time employees (defined as at least 1,000 hours to be worked annually) with benefits vesting after five years of creditable service. Contributions to the MPERS for fiscal year 2006 were 30.49 percent of covered payroll. The Department made the required contributions of $75,755,230, $69,608,657, and $59,737,271 in 2006, 2005, and 2004, respectively. The MPERS' funded status ratio as of June 30, 2005 was 53.94 percent.

The MPERS' funding policy provides for actuarially determined and board approved, employer contributions using the entry-age normal cost method on a closed group basis (consisting of normal cost and amortization of any unfunded accrued liabilities over a 30-year period). Actuarially determined rates, expressed as percentages of annual covered payroll, provide for amounts sufficient to fund those benefits designated by State statute to be funded in advance. Employees do not contribute to the MPERS. Any amendments to the plan are established by changes in State statute.

The MPERS issues its own stand-alone financial report. Copies may be requested from the MoDOT and Patrol Employees' Retirement System, P.O. Box 1930, Jefferson City, Missouri 65102.

Note 11: Other Post-Employment Benefits

In addition to the pension benefits described above, the Department provides a portion of health care insurance, in accordance with Missouri state statutes, for its employees who retired from the Department with a minimum of 5 years of state service and who participate in the MoDOT and MSHP Medical and Life Insurance Plan. Premiums vary by coverage categories, which include retirees, certain disabled employees, spouses, certain dependents, and survivors of deceased employees and retirees. Members contribute approximately 51 percent of the total premiums. The medical insurance rates, and employer and member contribution amounts, are recommended by the Medical and Life Insurance Plan's Board of Trustees and are approved by the Commission.

Costs are recognized on a pay-as-you-go basis, with the total post-employment benefit cost during fiscal year 2006 of approximately $16.9 million, net of member contributions. These other post-employment benefit costs are included in the Medical and Life Insurance Plan Internal Service Fund.

	MoDOT	MSHP	MPERS
Eligible and participating members	4,114	1,087	2
Member contributions	$ 9,809,158	$ 2,792,980	$ 4,716
Employer contributions	$ 9,578,268	$ 2,697,734	$ 4,055

Note 12: Commitments and Contingencies

(A) Unemployment Benefits

The Department is subject to the Missouri Employment Security Law. Department employees who qualify are entitled to benefit payments during periods of unemployment. The Department is required to reimburse the Division of Employment Security for benefit payments made to its former employees. The Department has identified no practical method of estimating the amount of future benefit payments that may be made to former employees for wage credits earned prior to June 30, 2006. Consequently, this potential obligation is not included in the accompanying basic financial statements. Total reimbursements made by the Department during the fiscal year were $564,945

(B) Construction Commitments

Construction awards outstanding for both state and federal participating projects at June 30, 2006 amounted to approximately $1,036,956,170. The federal portion of this total was approximately $663,298,081 or approximately 63.97 percent.

(C) Equipment Purchase Commitment

The Department had $1,047,858 at June 30, 2006, in escrowed cash and investments to be used for the purchase of equipment under a lease-purchase agreement. All equipment is expected to be received and all monies expended during fiscal year 2007.

(D) Operating Leases

The Department is committed under operating leases for buildings, as well as various office and maintenance equipment. Lease expenditures for the year ended June 30, 2006 amounted to $3,610,584. Future minimum lease payments for these leases are as follows:

Year ending:	
2007	$ 1,522,025
2008	632,557
2009	95,813
2010	11,925
	$ 2,262,320

(E) Federal Funding

The Department receives federal grants that are subject to review and audit by federal grantor agencies. This could result in requests for reimbursements by the grantor agency for any expenditures disallowed under grant terms. The Department believes such disallowances, if any, would be immaterial.

(F) Hancock Amendment

The Missouri Constitution bars the general assembly from imposing taxes that, together with all other revenues of the state (excluding federal funds, the road fund, the road bond fund, and the state transportation fund) exceed a specified revenue limit. The revenue limit is calculated by dividing total state revenues by the personal income of Missouri in 1979 multiplied by the personal income of Missouri in either the calendar year prior to the calendar year in which appropriations for the fiscal year for which the calculation is being made or the average of personal income of Missouri in the previous three calendar years, whichever is greater. In the event total state revenues exceed the revenue limit by 1 percent or more, excess revenues are refunded to taxpayers. As of June 30, 2006, no liability has been accrued for these refunds, as total state revenues are not expected to exceed the revenue limit.

Note 13: Net Asset and Fund Balance Deficits

The MHTC self-insurance plan fund, an internal service fund, had a net asset deficit of $5,984,695 at June 30, 2006. Funding is based on annual actuarial studies and budget availability. Increases in appropriations and claims management should eliminate the deficit over time.

The Railroad Expense Fund and the Highway Safety Fund, both nonmajor funds, had deficit fund balances at June 30, 2006 of $8,861 and $1,317,110, respectively. The Railroad Expense Fund's current year expenditures exceeded the current year revenues on the modified accrual basis, but did not exceed total available cash. The National Highway Traffic Safety Administration provides financing for the Highway Safety Fund. The Highway Safety Fund expenditures are recorded as incurred and under the modified accrual basis, the corresponding revenue has been deferred due to the timing of receipts.

Note 14: Subsequent Events

On July 11, 2006, the Commission authorized the issuance of up to $800,000,000 in first lien state road bonds, consisting of $296,670,000 Series A 2006 and $503,330,000 Series B 2006. The sale period was July 24 and 25, 2006. These bonds bear interest, payable semiannually, from 3.75 percent to 5.00 percent and are due in semiannual installments beginning November 1, 2006. The bonds are callable by the Department, subject to certain provisions. Proceeds will be used to finance certain construction and reconstruction costs of the state highway system, pursuant to the Smoother, Safer, Sooner road and bridge program.

Also on July 11, 2006, the Commission authorized the execution of a qualified interest rate swap agreement in anticipation of issuing up to $400,000,000 in state road bonds during fiscal year 2008. The purpose of the swap agreement is to reduce the Commission's risk of variations in its debt service costs and increase the predictability of cash flow from earnings on invested funds.

Note 15: Future Accounting Pronouncement

The Department will implement GASB Statement 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, when it first applies in fiscal year 2008. This statement establishes new financial reporting and disclosure requirements for the Department, as an employer providing healthcare benefits to certain former employees. Under the new requirements, in addition to expanded note disclosure, the Department's financial statements will reflect the accrual of any unfunded actuarially determined Annual Required Contribution. The financial impact has not yet been determined. The Statement allows prospective reporting.

Required Supplementary Information

Required Supplementary Information

Budgetary Comparison - State Highways and Transportation Department Fund

Year Ended June 30, 2006

	Budgeted Amounts			Variance Between Final Budget and
	Original	Final	Actual	Actual
Budgetary fund balance, July 1, 2005	$ 26,669,333	$ 26,669,333	$ 26,669,333	$ —
Resources (inflows)				
Fuel tax	564,258,000	564,258,000	520,721,457	(43,536,543)
Licenses, fees and permits	165,914,000	165,914,000	167,226,634	1,312,634
Use tax	41,433,000	41,433,000	33,595,064	(7,837,936)
Interest	900,000	900,000	2,626,000	1,726,000
Intergovernmental/cost reimbursements/ miscellaneous	2,010,000	2,010,000	687,399	(1,322,601)
Federal government	5,112,000	5,112,000	405,849	(4,706,151)
Amount available for appropriation	806,296,333	806,296,333	751,931,736	(54,364,597)
Charges to appropriations (outflows)				
Appropriations spent by other state agencies	183,663,254	188,412,881	169,793,635	18,619,246
Total charges to appropriations	183,663,254	188,412,881	169,793,635	18,619,246
Transfers from MCS Federal Fund	90,000	90,000	90,000	—
Transfers to State Road Fund	708,627,915	708,627,915	570,616,438	138,011,477
Budgetary fund balance, June 30, 2006	$ (85,904,836)	$ (90,654,463)	$ 11,611,663	$ 102,266,126

Required Supplementary Information

Budgetary Comparison - State Road Fund

Year Ended June 30, 2006

	Budgeted Amounts			Variance Between Final Budget and
	Original	Final	Actual	Actual
Budgetary fund balance, July 1, 2005	$ 319,484,273	$ 319,484,273	$ 319,484,273	$ —
Resources (inflows)				
Fuel tax	112,000	112,000	106,978	(5,022)
Licenses, fees, and permits	99,187,000	99,187,000	120,916,826	21,729,826
Sales and use tax	131,535,000	131,535,000	110,146,034	(21,388,966)
Interest	7,803,000	7,803,000	19,948,106	12,145,106
Intergovernmental/cost reimbursements/miscellaneous	72,990,000	72,990,000	67,325,198	(5,664,802)
Federal government	693,034,000	693,034,000	757,994,011	64,960,011
Bond proceeds	360,000,000	360,000,000	370,174,879	10,174,879
Amount available for appropriation	1,684,145,273	1,684,145,273	1,766,096,305	81,951,032
Charges to appropriations (outflows)				
Administration				
Personal service	19,664,495	19,715,281	18,905,524	809,757
Fringe benefits	20,659,845	20,683,025	19,173,750	1,509,275
Expense and equipment	6,540,144	6,537,253	4,993,997	1,543,256
Maintenance				
Personal service	140,931,599	141,344,244	138,028,999	3,315,245
Fringe benefits	88,408,629	88,267,751	86,571,008	1,696,743
Expense and equipment	179,060,155	175,423,163	172,860,408	2,562,755
Motorist assist				
Personal service	1,906,818	1,843,555	1,774,709	68,846
Fringe benefits	1,209,987	1,186,082	1,100,672	85,410
Expense and equipment	317,129	437,157	369,757	67,400
Construction				
Personal service	84,149,633	84,135,898	80,503,704	3,632,194
Fringe benefits	44,817,207	44,808,488	42,073,320	2,735,168
Expense and equipment	24,069,631	23,971,741	19,862,126	4,109,615
Contracts	828,433,000	842,041,100	798,645,637	43,395,463
ROW purchases	80,000,000	70,000,000	60,675,996	9,324,004
Program-bonds	360,000,000	371,939,035	371,939,035	—
Fleet, facilities, and information systems				
Personal service	15,436,374	15,049,935	14,130,989	918,946
Fringe benefits	8,405,652	8,230,778	7,624,711	606,067
Expense and equipment	86,906,752	87,216,397	77,669,432	9,546,965
Multimodal operations				
Personal service	145,563	145,563	141,205	4,358
Fringe benefits	69,946	70,139	66,872	3,267
Expense and equipment	15,000	15,000	5,959	9,041
Bond principal and interest payments	85,977,000	90,627,000	90,391,175	235,825
Total charges to appropriations	2,077,124,559	2,093,688,585	2,007,508,985	86,179,600
Transfers to Highway Safety Fund	—	(24,575)	(24,574)	(1)
Transfers from Highway Fund	708,627,915	708,627,915	570,616,438	138,011,477
Budgetary fund balance, June 30, 2006	$ 315,648,629	$ 299,060,028	$ 329,179,184	$ 30,119,156

Required Supplementary Information

Budget Basis to GAAP Reconciliation and Disclosure

Year Ended June 30, 2006

The following is a reconciliation of the difference between the State's budgetary basis and accounting principles generally accepted in the United States of America (GAAP) basis:

	State Highways and Transportation Department Fund	State Road Fund
Fund balance, budgetary basis	$ 11,611,663	$ 329,179,184
Receivables	109,471,576	83,182,425
Due from other funds	—	49,368
Inventories	—	37,672,733
Capital lease escrow	—	1,047,858
Payables	(7,812,548)	(137,380,398)
Deferred revenues	—	(30,584,608)
Change in fair value of investments	(131,772)	(3,784,829)
Fund balance, GAAP basis	$ 113,138,919	$ 279,381,733

Budgetary Principles and Presentation

The budgetary comparison schedules are presented on the State's budgetary basis of accounting. Under this basis, revenues are recognized when cash is received. Expenditures are recognized for cash disbursements made during the fiscal year and for adjustments made in the lapse period, as defined by the Office of Administration.

The legal authority for approval of the Department's budget and amendments for all funds, except the State Road Fund, rests with the State Legislature. The budgeted amounts lapse at the end of the lapse period. The Commission gives approval of the State Road Fund budget and amendments. The fund level is the legal level of control for the State Road Fund.

The Department develops its budget through processes involving each of its ten districts and the central office units. Upon Commission approval, the legislative budget request is sent to the Office of Administration (OA) on the first of October, which in turn, is forwarded to the Governor's office. The Governor develops a recommendation regarding the budget and forwards both the budget request and the recommendation to the Legislature. The Legislature generally acts on budget matters during January through May. The Governor has veto authority and generally acts on those matters in June. The Department distributes funds available internally based on district and the central office units' input and feedback. This is then submitted to the Commission for approval.

Combining Financial Statements

Combining Balance Sheet

Nonmajor Governmental Funds

June 30, 2006

	Multimodal Federal Fund and Missouri General Fund	State Transportation Fund	Aviation Trust Fund	State Transportation Assistance Revolving Fund	MCS Federal Fund
Assets					
Cash and cash equivalents	$ 1,127,829	$ 122,260	$ 13,274,577	$ 1,066,518	$ 129,027
Taxes receivable – due from state funds	—	220,916	1,456,469	—	—
Miscellaneous receivables, net	—	—	87,118	7,454	—
Federal government receivable	5,080,245	—	—	—	170,210
Loans receivable	—	—	—	2,135,030	—
Total assets	$ 6,208,074	$ 343,176	$ 14,818,164	$ 3,209,002	$ 299,237
Liabilities and Fund Balances					
Accounts payable	$ 5,162,280	$ 500	$ 256,637	$ —	$ 170,210
Accrued payroll	21,694	6,631	24,918	—	—
Deferred revenue	830,326	—	—	—	—
Due to other funds	11,963	9,515	11,500	—	—
Total liabilities	6,026,263	16,646	293,055	—	170,210
Fund Balances					
Reserve for loans receivable	—	—	—	2,135,030	—
Unreserved, special revenue funds	181,811	326,530	14,525,109	1,073,972	129,027
Total fund balances	181,811	326,530	14,525,109	3,209,002	129,027
Total liabilities and fund balances	$ 6,208,074	$ 343,176	$ 14,818,164	$ 3,209,002	$ 299,237

Grade Crossing Safety Fund	Railroad Expense Fund	Highway Safety Fund	Motorcycle Safety Fund	Total
$ 6,508,938	$ 33,634	$ 1,456,282	$ 275,889	$ 23,994,954
141,605	—	—	—	1,818,990
—	—	—	—	94,572
—	—	3,517,875	—	8,768,330
—	—	—	—	2,135,030
$ 6,650,543	$ 33,634	$ 4,974,157	$ 275,889	$ 36,811,876
$ 147,141	$ 2,352	$ 4,264,987	$ —	$ 10,004,107
—	23,753	15,110	—	92,106
—	—	2,011,170	—	2,841,496
—	16,390	—	—	49,368
147,141	42,495	6,291,267	—	12,987,077
—	—	—	—	2,135,030
6,503,402	(8,861)	(1,317,110)	275,889	21,689,769
6,503,402	(8,861)	(1,317,110)	275,889	23,824,799
$ 6,650,543	$ 33,634	$ 4,974,157	$ 275,889	$ 36,811,876

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds

Year Ended June 30, 2006

	Multimodal Federal Fund and Missouri General Fund	State Transportation Fund	Aviation Trust Fund	State Transportation Assistance Revolving Fund	MCS Federal Fund
Revenues					
Fuel tax	$ —	$ —	$ 322,296	$ —	$ —
Sales and use tax	—	2,766,735	6,656,354	—	—
License, fees, and permits	—	—	—	—	—
Intergovernmental/cost reimbursements/ miscellaneous	2,000,815	—	—	—	—
Investment earnings	—	2,604	441,693	105,340	—
Federal government	39,363,544	—	—	—	1,177,964
Total revenues	41,364,359	2,769,339	7,420,343	105,340	1,177,964
Expenditures					
Current					
Maintenance	—	—	—	—	1,179,230
Multimodal operations	48,801,000	6,587,917	3,823,800	—	—
Capital outlay	53,160	—	—	—	—
Other state agencies	—	—	40,841	5,641	—
Total expenditures	48,854,160	6,587,917	3,864,641	5,641	1,179,230
Excess of revenues over (under) expenditures	(7,489,801)	(3,818,578)	3,555,702	99,699	(1,266)
Other Financing Sources (Uses)					
Proceeds from the sale of capital assets	—	—	—	—	1,850
Transfers (out)	—	-—	—	—	(90,000)
Transfers related to state appropriations	7,686,932	3,765,589	—	—	—
Total other financing source (uses)	7,686,932	3,765,589	—	—	(88,150)
Net Change in Fund Balances	197,131	(52,989)	3,555,702	99,699	(89,416)
Fund Balances, Beginning of Year	(15,320)	379,519	10,969,407	3,109,303	218,443
Fund Balances, End of Year	$ 181,811	$ 326,530	$ 14,525,109	$ 3,209,002	$ 129,027

Grade Crossing Safety Fund	Railroad Expense Fund	Highway Safety Fund	Motorcycle Safety Fund	Total
$ —	$ —	$ —	$ —	$ 322,296
—	—	—	—	9,423,089
1,578,782	733,396	—	195,235	2,507,413
—	—	50,045	197,717	2,248,577
1,609	—	—	—	551,246
—	—	21,088,422	—	61,629,930
1,580,391	733,396	21,138,467	392,952	76,682,551
—	—	23,150,487	324,570	24,654,287
478,568	759,533	—	—	60,450,818
—	—	—	—	53,160
17,278	10,159	—	4,839	78,758
495,846	769,692	23,150,487	329,409	85,237,023
1,084,545	(36,296)	(2,012,020)	63,543	(8,554,472)
—	10,250	850	—	12,950
—	—	24,574	—	(65,426)
—	—	—	—	11,452,521
—	10,250	25,424	—	11,400,045
1,084,545	(26,046)	(1,986,596)	63,543	2,845,573
5,418,857	17,185	669,486	212,346	20,979,226
$ 6,503,402	$ (8,861)	$ (1,317,110)	$ 275,889	$ 23,824,799

Combining Statement of Net Assets (Deficit)

Proprietary Funds - Internal Service

June 30, 2006

	MoDOT & MSHP Medical and Life Insurance Plan	MHTC Self-Insurance Plan	Total
Assets			
Current assets			
Cash and cash equivalents	$ 2,358,559	$ 1,622,528	$ 3,981,087
Investments	19,935,162	21,871,658	41,806,820
Restricted investments	100,000	200,000	300,000
Miscellaneous receivables	268,183	371,224	639,407
Total current assets	22,661,904	24,065,410	46,727,314
Noncurrent assets			
Investments	12,094,939	25,831,700	37,926,639
Total noncurrent assets	12,094,939	25,831,700	37,926,639
Total assets	34,756,843	49,897,110	84,653,953
Liabilities			
Current liabilities			
Accounts payable	994,815	25,259	1,020,074
Deferred revenue	6,666,087	—	6,666,087
Pending self-insurance claims	—	10,779,000	10,779,000
Incurred but not reported claims	9,561,000	4,412,000	13,973,000
Total current liabilities	17,221,902	15,216,259	32,438,161
Noncurrent liabilities			
Pending self-insurance claims	—	28,854,416	28,854,416
Incurred but not reported claims	—	11,811,130	11,811,130
Total noncurrent liabilities	—	40,665,546	40,665,546
Total liabilities	17,221,902	55,881,805	73,103,707
Net Assets			
Restricted net assets	100,000	200,000	300,000
Unrestricted net assets (deficit)	17,434,941	(6,184,695)	11,250,246
Total net assets (deficit)	$ 17,534,941	$ (5,984,695)	$ 11,550,246

Combining Statement of Revenues, Expenses and Changes in Net Assets (Deficit)

Proprietary Funds - Internal Service

Year Ended June 30, 2006

	MoDOT & MSHP Medical and Life Insurance Plan	MHTC Self-Insurance Plan	Total
Operating Revenues			
Self-insurance premiums			
Highway workers' compensation	$ —	$ 10,872,000	$ 10,872,000
Highway patrol workers' compensation	—	6,948,238	6,948,238
Highway fleet vehicle liability	—	1,547,998	1,547,998
General liability	—	5,871,108	5,871,108
Medical insurance premiums			
State	64,990,190	—	64,990,190
Member	26,216,354	—	26,216,354
Other	2,217,478	296,619	2,514,097
Total operating revenues	93,424,022	25,535,963	118,959,985
Operating Expenses			
Self-insurance programs			
Highway workers' compensation	—	6,468,409	6,468,409
Highway patrol workers' compensation	—	2,588,673	2,588,673
Highway fleet vehicle liability	—	1,353,873	1,353,873
Highway general liability	—	16,007,810	16,007,810
Other	—	968,552	968,552
Medical and life insurance program			
Insurance premiums	5,434,594	—	5,434,594
Medical benefits	67,121,510	—	67,121,510
Prescription drug benefits	16,670,645	—	16,670,645
Professional fees	1,188,620	—	1,188,620
Administrative services	2,468,332	—	2,468,332
Other	68,020	—	68,020
Total operating expenses	92,951,721	27,387,317	120,339,038
Operating income (loss)	472,301	(1,851,354)	(1,379,053)
Nonoperating Revenues			
Net appreciation and investment income	1,210,927	1,060,697	2,271,624
Total nonoperating revenues	1,210,927	1,060,697	2,271,624
Change in Net Assets	1,683,228	(790,657)	892,571
Net Assets (Deficit), Beginning of Year	15,851,713	(5,194,038)	10,657,675
Net Assets (Deficit), End of Year	$ 17,534,941	$ (5,984,695)	$ 11,550,246

Combining Statement of Cash Flows

Proprietary Funds - Internal Service

Year Ended June 30, 2006

	MoDOT & MSHP Medical and Life Insurance Plan	MHTC Self-Insurance Plan	Total
Cash Flows From Operations Activities			
Receipts from interfund services provided	$ 93,472,248	$ 25,625,686	$ 119,097,934
Payments for interfund services used	(88,826,655)	(16,489,656)	(105,316,311)
Payments to suppliers	(3,899,584)	(1,039,157)	(4,938,741)
Net cash provided by operating activities	746,009	8,096,873	8,842,882
Cash Flows From Investing Activities			
Proceeds from sale and maturities of investments	364,204,564	8,199,850	372,404,414
Purchase of investments	(386,974,696)	(15,974,551)	(402,949,247)
Interest received	604,473	1,332,049	1,936,522
Investment fees	(22,022)	(31,693)	(53,715)
Net cash (used in) investing activities	(22,187,681)	(6,474,345)	(28,662,026)
Net increase (decrease) in cash and cash equivalents	(21,441,672)	1,622,528	(19,819,144)
Cash and Cash Equivalents, Beginning of Year	23,800,231	—	23,800,231
Cash and Cash Equivalents, End of Year	$ 2,358,559	$ 1,622,528	$ 3,981,087
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities			
Operating income (loss)	$ 472,301	$ (1,851,354)	$ (1,379,053)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Decrease in receivables	48,226	89,723	137,949
Increase in accounts payable	267,388	9,858,504	10,125,892
Decrease in deferred revenue	(41,906)	—	(41,906)
Net cash provided by operating activities	$ 746,009	$ 8,096,873	$ 8,842,882
Noncash Items Impacting Recorded Assets			
Increase (decrease) in fair value of investments	$ 453,689	$ (325,813)	$ 127,876

Combining Statement of Assets and Liabilities

Fiduciary Funds – Agency

June 30, 2006

	Local Fund	MCS Agency Fund	Total
Assets			
Cash and cash equivalents	$ 37,037	$ 1,428,406	$ 1,465,443
Investments	9,338,459	6,854,088	16,192,547
Accounts receivable	—	2,730,924	2,730,924
Other	53,745	632,265	686,010
Total assets	$ 9,429,241	$ 11,645,683	$ 21,074,924
Liabilities			
Due to other governments	$ —	$ 11,645,683	$ 11,645,683
Advances from other governments	9,429,241	—	9,429,241
Total liabilities	$ 9,429,241	$ 11,645,683	$ 21,074,924